British Columbia Securities Commission

Annual Report 2005 | 2006

BRITISH COLUMBIA SECURITIES COMMISSION

BCSC

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The British Columbia Securities Commission

Message from the chair

2005–2006 was a year of transition and resolution. We began the year being optimistic about implementing a new approach to regulation, but unsure how this would fit with the national drive to adopt highly harmonized and streamlined legislation.

Over the previous few years, we had built the policy foundations for a new approach to regulation. Our 2004 Securities Act was a result of these efforts, but it was only part of a broader program to make regulation more effective in protecting investors and less burdensome on market participants. Although the government had delayed implementing the new Act in November 2004, we expected to implement it during 2005–2006.

At the same time, we were playing a leading role in planning and executing the national passport initiative. Evolving discussions made clear that our new Act, which differed in some significant ways from our current legislation, did not fit the ideal of harmonized regulation that our colleagues saw as the framework for national securities regulation reform.

By late 2005, British Columbia had to choose: either remain part of the national passport process, or bring the new Act into force. We could not do both. In February, the government accepted our recommendation to defer the new Act to allow us to devote our full attention to passport.

We ended the year with a mandate from the government to continue implementing our new approach to regulation within the passport process. In my current role as chair of the Canadian Securities Administrators (CSA) passport steering committee, I intend to work closely with our regulatory colleagues to bring this kind of regulation to the national stage.

POLICY HIGHLIGHTS

In addition to our work on passport, we participated in many important CSA policy initiatives. These are described elsewhere in this report, but I will highlight two of them here.

BCSC staff led a comprehensive review of National Instrument 43-101 *Standards of Disclosure for Mineral Projects*. With more than 650 mining head offices in BC, this is an important rule for the province's public markets. The updated rule dropped requirements that had proven burdensome without being effective and is now much easier for industry to understand and comply with.

We were very pleased to participate in a national policy project that started with strongly divergent views and ended in unanimous agreement. As a result, CSA will not proceed with a previously proposed rule on internal controls over financial reporting that aligned with the US *Sarbanes-Oxley Act*. Later this year we will instead publish for comment a better targeted set of requirements that we expect to provide effective investor protection without imposing excessive regulatory costs and burdens.

Canada's securities regulation passport lets a market participant deal solely with its home regulator in most situations. Its benefits go beyond single-window access. To ensure that jurisdictions maintain common standards, we are harmonizing securities legislation in all provinces and increasing cooperation within CSA. Our objective is to help make the national regulatory system more effective and less burdensome for the benefit of investors and businesses in BC, and across Canada.

In March, the government introduced amendments to the *Securities Act* to give the BCSC new legal tools to implement the passport system, support harmonization across the country, and increase investor protection.

Many of the updated provisions came into force in May 2006. Others will be phased in over the next year or so. In addition to the passport and harmonization tools, the provisions contain some of the innovative investor protection measures originally introduced in the 2004 Securities Act. These range from enforcement orders based on the findings of other jurisdictions to much larger maximum penalties and a new provincial court power to make convicted wrongdoers repay ill-gotten gains.

PEOPLE |

Just after the end of the fiscal year, on May 1, 2006, two commissioners retired when their terms ended. Joan Brockman and Roy Wares served on the Commission for eight years, bringing their unique viewpoints to bear on the BCSC's activities. Both sat on many hearing panels, participated actively in policy and oversight discussions, and contributed their time and expertise on committees. I would like to thank them both for their contribution to securities regulation in British Columbia during a time of significant change and development. We will miss them.

Finally, I would like to thank my fellow commissioners, advisory committees, executive director Brenda Leong, and all of the staff for their tremendous efforts over the past year. A few years ago, many thought we were wrong to reject costly, detailed, and prescriptive rules as a way to manage market misconduct. We now see a growing interest in principles-based regulation. Throughout our organization we are routinely making use of the lessons we have learned and the ideas we developed in working on a new approach to securities regulation. We are committed to results-based securities regulation that costs less, is more effective in protecting investors, and promotes competitiveness and innovation. Together, we have persevered through uncertainties about how best to achieve our vision and united behind a newly defined strategy that will serve us well in the years ahead.

Douglas M. Hyndman
Chair and Chief Executive Officer

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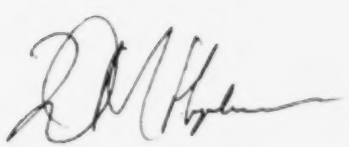


Douglas M. Hyndman

Accountability Statement

The 2005–2006 British Columbia Securities Commission Annual Report was prepared under my direction in accordance with the Budget Transparency and Accountability Act. I am accountable for the contents of the report, including the selection of performance measures and reporting results. The information presented here reflects the actual performance of the BCSC for the 12 months ended March 31, 2006.

We have prepared the information in accordance with the BC Reporting Principles. It represents a comprehensive picture of our actual performance in relation to the BCSC 2005–2008 Service Plan Update tabled in September 2005. The measures we present are consistent with the BCSC's mission and goals and focus on outcomes that are critical to our organization's performance.

I am responsible for ensuring that internal controls are in place so that we measure performance information accurately and in a timely way.

This report contains estimates and interpretive information that represents our management's best judgment. We identify any significant limitations on reliability in each measurement report.

Douglas M. Hyndman
Chair and Chief Executive Officer

Executive Director's commentary

In my first full year as Executive Director, I have been pleased to oversee the operations of a securities commission striving to bring about a new approach to regulation.

The February 2006 decision to defer the 2004 Securities Act found us already in our fourth quarter, with the better part of a year invested in administering securities regulation using risk-based analysis and a problem-solving approach focused on outcomes.

- We had been layering in soft skills with customized staff training on managing change, solving problems creatively, negotiating effectively, and using plain language.
- We had begun building case studies to document our efforts applying outcomes-based compliance solutions in day-to-day situations. Case studies exposed us to the realities of motivating market participants to make the right decisions, and challenging ourselves to hold them accountable for their decisions.
- We had also begun refining how we would provide appropriate guidance to market participants to help them comply with their regulatory obligations. Staff interacted regularly with our full-time commissioners, who challenged them to think about how to provide effective guidance rather than telling market participants what to do.

As the year began, I thought that we would make a good start at moving further towards outcomes-based regulatory practices. At year-end, I believed we had done so. I also recognized that most of the learning opportunities had involved the management team and senior staff. This left us with plenty of room to share that learning more broadly among staff at every level in the coming year.

One rewarding result of looking at everyday issues through a new lens is that hidden ideas come into clear view. This was true last year in the area of education. For some time, we had thought about educating industry and investors as a single goal. However, our focus on holding firms and senior management accountable for their compliance actions clarified the need to view industry education more as a tool to strengthen regulatory compliance than an end in itself.

We placed the onus for industry education on staff responsible for managing regulatory compliance. These were the people best positioned to deal with the information needs of market participants. We then reevaluated our investor education commitments for the year. In doing so, we shifted the emphasis from programming to research to lay the foundation for a comprehensive investor education strategy. I am pleased that our fellow CSA regulators have agreed to work with us as we implement this strategy in the coming year. Our 2006–2009 service plan reframes our education goal to focus solely on educating investors.

Our commitment to outcomes-based securities regulation is transforming the BCSC into a knowledge organization dependent on gathering relevant information and applying critical thinking for effective regulatory solutions. We strive to attract staff with the skills and knowledge to thrive in a complex operating environment and who exemplify the qualities most important to our success – drive for results, problem solving, effective communication, teamwork, and customer service.

Brenda M. Leong

Our commitment to outcomes-based securities regulation is transforming the BCSC into a knowledge organization dependent on gathering relevant information and applying critical thinking for effective regulatory solutions. We strive to attract staff with the skills and knowledge to thrive in a complex operating environment and who exemplify the qualities most important to our success – drive for results, problem solving, effective communication, teamwork, and customer service.

Any organization striving to adapt to the challenges of evolving capital markets would not get far without sophisticated technology and information management capability. Several years' investment in technology infrastructure allowed us last year to launch a number of new systems to support more direct and immediate communication with stakeholders, and more efficient operations. These included an email subscription service, RSS ("*really simple syndicated*") feeds, online event registration, and project management and business process systems. By year-end, we had also identified the need for a tool that all staff could use to gather timely information on emerging investment products that might warrant regulatory attention. As a result, a wiki will become part of our tool kit in 2006 – 2007.

None of these things – from adopting a new approach to securities regulation to driving operating efficiencies with technology-based management tools – would be possible without the hard work, professionalism, and optimism of BCSC staff.

For the past four years, at least, we have been in a constant state of change. Yet staff rise to the occasion every year. It is not always easy. We sometimes wonder why we can't be satisfied with tried and familiar ways. But by challenging ourselves and each other to find innovative approaches to protecting investors and fostering efficient markets, we find ourselves in an intensely rewarding environment while becoming better regulators.

Brenda M. Leong
Executive Director

Organizational overview

MISSION | Our mission is to protect and promote the public interest by fostering:

- A securities market that is fair and warrants public confidence
- A dynamic and competitive securities industry that provides investment opportunities and access to capital

To fulfill our mission we must protect investors from fraudulent, improper and unfair practices, while allowing market participants to pursue their economic interests without an excessive burden of regulation.

The BCSC's enabling legislation is the *Securities Act*, RSBC 1996, c. 418.

VISION | Our vision is to make British Columbia the best place in North America to invest and raise capital. To do this, we must remain leaders in securities regulation by being innovative, cost effective, and tough but fair.

VALUES | We embrace five values to help fulfill our mission:

- **Excellence.** We commit to high standards and take pride in our work.
- **Service.** We provide efficient, timely, and responsive service.
- **Integrity.** We act fairly and ethically.
- **Accountability.** We take responsibility for meeting our commitments.
- **Resourcefulness.** We are proactive, innovative, and cost effective.

OUR PEOPLE

As an organization committed to balancing regulatory costs and benefits while keeping pace with fast-evolving capital markets, we count on our people to bring more than their technical knowledge to work each day.

In pursuing our vision, and carrying out the activities that support our mission, we use a performance management system to measure and reward these four behaviours:

- **Drive for results** – Exhibit a sense of urgency. Push for high levels of accomplishment. Think of better ways to do our jobs. Set and meet specific, measurable, achievable, relevant, and time-based objectives.
- **Effective communication** – State expectations clearly, express ideas well, and keep others informed. Use plain language to communicate.
- **Problem solving** – Anticipate and focus on important, well-defined problems. Break complex problems into manageable parts. Use good judgment to form opinions by weighing evidence and testing premises. Measure the effectiveness of implemented solutions.
- **Teamwork and cooperation** – Work together to maximize each other's talents and accomplish the BCSC's goals. Act professionally and cooperatively. Form teams to develop and implement solutions. Contribute to team effectiveness by thinking independently. Support and advance team goals.

Community involvement and recognition: From 89% participation in the Provincial Employees Community Services Fund to the donation of blood that could save hundreds of lives to ad hoc in-house fundraising for many charitable organizations, our staff are keenly civic-minded. On the recognition front, we received awards for the creativity and effectiveness of our education and internal communication programs, as well as for the "green quotient" and business continuity planning of our organization as a whole.

GOVERNANCE

The provincial government appoints commissioners, who are responsible for administering the *Securities Act*. They are chosen for their skills and experience in business, law, capital markets, and regulation and perform three functions:

1. Serving as the BCSC's board of directors and overseeing management.
2. Making rules (with the consent of the Attorney General), and issuing guidance, to regulate the securities industry.
3. Acting as an administrative tribunal and making regulatory decisions under the legislation.

As members of an administrative tribunal, commissioners form hearing panels to:

- Adjudicate enforcement cases staff bring forward and, when appropriate, impose regulatory sanctions.
- Review regulatory decisions made by BCSC staff, exchanges, or self-regulatory organizations when BCSC staff or persons affected by the decision apply for review.

We post the BCSC's governance policy and conflict of interest rules on our website under *About the Commission*. These include information about:

- Terms of reference for the Commission, the chair, the commissioners, the audit committee, and the human resources committee.
- Appointment, evaluation, and compensation of commissioners.
- Expected standards of conduct for commissioners and staff.
- The Commission is currently revising its governance policy and conduct and conflict of interest rules.

COMMISSIONERS[1]

The BCSC had 10 commissioners at the end of the fiscal year: four were full time, including the chair and chief executive officer, and six were part-time.

- Doug Hyndman, Chair – appointed 1987 (12)
- Brent Aitken, Vice Chair – appointed 1995 (9)
- Adrienne Salvail-Lopez, Vice Chair – appointed 1992 (12)
- Robin Ford, Full-time Commissioner – appointed 2004 (11)
- Neil Alexander, Commissioner – appointed 2002 (12)
- Joan Brockman, Commissioner – appointed 1998 (12)
- Marc Foreman, Commissioner – appointed 2002 (11)
- John Graf, Commissioner – appointed 1998 (12)
- Bob Milbourne, Commissioner – appointed 2002 (12)
- Roy Wares, Commissioner – appointed 1998 (12)

COMMISSIONERS[2]

Two committees help the Commission fulfill its financial and human resources monitoring responsibilities.

The audit committee reviews for approval by the Commission our public reporting of financial information, monitors our control systems, and oversees both internal and external audit functions. The audit committee members are:

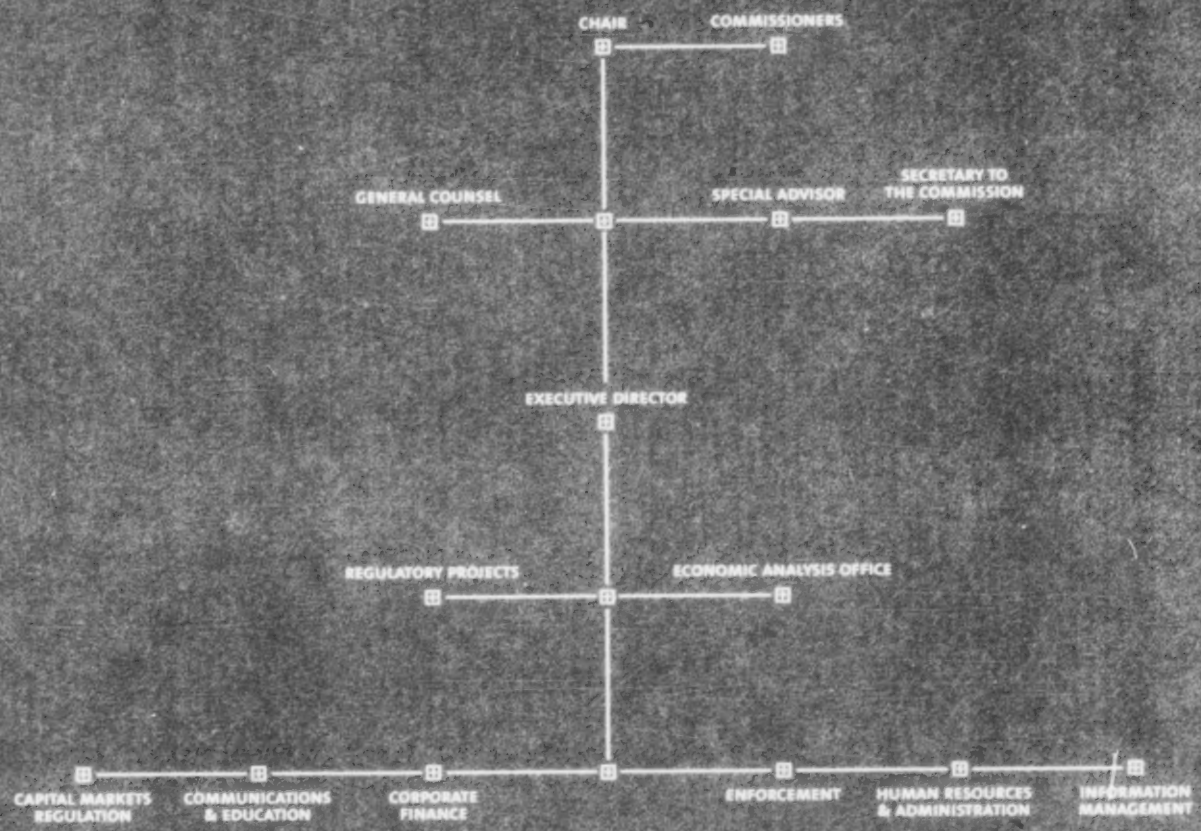
- John Graf, Chair (5)
- Joan Brockman (5)
- Marc Foreman (4), member from May 2005 onwards
- Neil Alexander (1), member until May 2005

The human resources committee ensures that we follow appropriate procedures for the selection, evaluation, compensation, and succession of commissioners, executives, senior management, and other employees. The committee is also responsible for seeing that our human resources and compensation policies and practices support the Service Plan. The human resources Committee members are:

- Robert Milbourne, Chair (5)
- Roy Wares (5)
- Neil Alexander (4), member from May 2005 onwards
- Marc Foreman (1), member until May 2005

1 The number in brackets is the number of Commission meetings the commissioner attended. The Commission scheduled and held 12 meetings during the year.
2 The number in brackets is the number of committee meetings the commissioner attended. During the year, the committees each held five meetings.

organizational structure



STAFFING AND FUNDING

We are committed to operating the BCSC on a break-even basis with a stable, relatively small, and highly efficient staff.

	ACTUAL 04/05	ACTUAL 05/06	PROJECTION 06/07
Staffing	195	191	190
Annual Budget	$26.7 million	$27.2 million	$28.4 million

ACTIVITY STATISTICS

AS OF MARCH 31	2006	2005	2004
Registrants[1]	26,815	25,090	18,478
Active Reporting Issuers	6,245	6,366	6,206
Mutual Fund Prospectus Filings	2,410	2,649	2,390
Prospectus Filings (Non-Mutual Fund)	699	634	628
Initial Public Offerings[2]	306	277	196
Continuous Disclosure Reviews[3]	204	721	287
Annual Information Forms[4]	1,691	1,039	631
Cease Trading Orders (Reporting Issuers)	226	314	360
Exemption Applications	372	442	478

(1) Figures for fiscal 2005 and 2006 drawn from the National Registration Database. The fiscal 2004 figure is an estimate, as the NRD was not in place to provide a definite number.

(2) Initial public offerings are a subset of all prospectus filings.

(3) The number of continuous disclosure reviews in 2005 was significantly higher because we did a special MD&A review. This figure is not comparable to prior years.

(4) Before January 2004, reporting issuers filed an annual information form (AIF) either to become eligible to file a short-form prospectus or to take advantage of a shortened hold period under certain exemptions. National Instrument 51-102 Continuous Disclosure Obligations, effective for fiscal years starting on or after January 1, 2004, requires all non-venture issuers listed on the TSX and on foreign markets to file an AIF with their continuous disclosure record.

This change resulted in more AIF filings overall. More than 40% of the companies filed two AIFs in 2004–05, one to qualify for a short-form prospectus and one later in the year to satisfy continuous disclosure requirements. Thus, 1572 companies filed 1691 AIFs in 2005–06 compared to 702 companies that filed 1039 AIFs in 2004–05.

During 2005–06, the number of AIFs rose again due to an interim provision that allowed companies with a December 31 year-end to file their first AIF for continuous disclosure as late as April 30, 2005, i.e., into the first month of our 2005–2006 fiscal year.

PRIMARY BUSINESS

The BCSC regulates the conduct of businesses and individuals that participate in capital markets, including:

- Issuers that raise capital through security offerings, and their directors and officers
- Securities firms, their directors and officers, and their employees registered to advise and trade in securities

We carry out our operating activities in the ways described below:

- We set disclosure and conduct standards for market participants such as registered securities firms and publicly traded companies.
- We register firms and individuals who sell securities in the province.
- We monitor the conduct of market participants for compliance with regulatory requirements. We educate market participants about their regulatory obligations. We choose from a wide range of tools to fix non-compliance when we find it.
- We investigate complaints, and gather information, to identify abusive market conduct.
- We take enforcement action against those responsible when warranted by serious cases of misconduct.
- We educate investors about financial matters and how they can protect themselves against fraud and other abusive market practices.

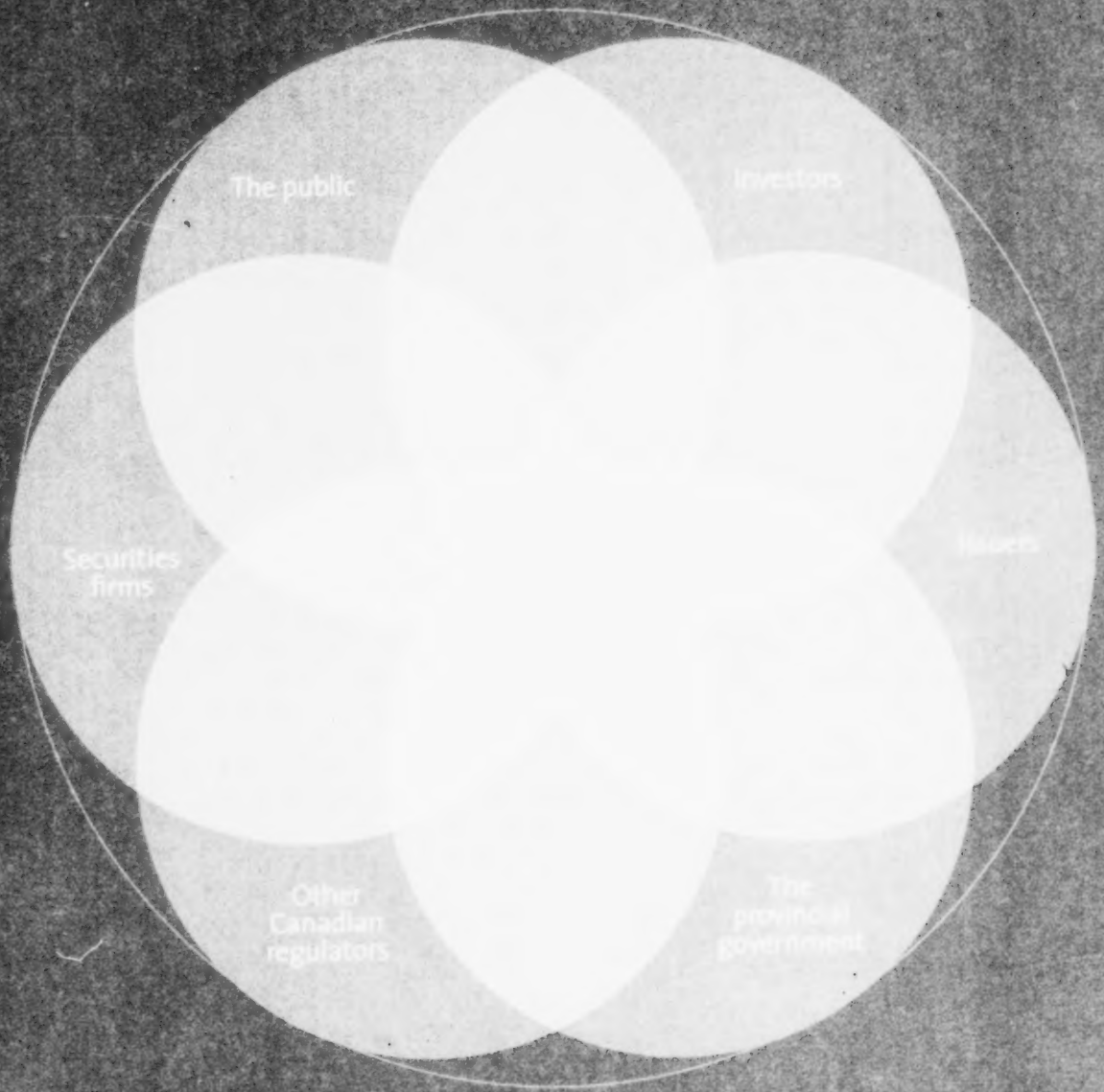
We have four goals that guide our operations in the areas of compliance, enforcement, policy, and education. These goals are described in the *Report on Performance* section.

KEY STAKEHOLDERS

We consult our stakeholders in various ways to understand their needs and interests, and we communicate with them to explain our requirements, expectations, and plans. Our stakeholders are:

- The public – which relies on us to foster capital markets that contribute to the economic well being of British Columbia
- Investors – both retail and institutional, who seek to invest their savings in fair and efficient securities markets
- Issuers – public and private companies that rely on the capital markets to fund growth and diversification
- Securities firms – registered to provide investment services to both users and suppliers of capital
- The provincial government – to which we are accountable
- Other Canadian regulators – with which we develop and implement joint policy, technology, and education initiatives through the Canadian Securities Administrators (CSA)

key stakeholders



BUSINESS AREAS

We conduct our regulatory activities through eight business areas, each led by a member of the executive management team.

OFFICE OF THE CHAIR

Doug Hyndman, Chair and Chief Executive Officer

Advises and supports the commissioners in discharging their board, policy making, and administrative tribunal functions. Leads key stakeholder relationships with government, other regulators, industry organizations, and market participants.

EXECUTIVE DIRECTOR'S OFFICE

Brenda Leong, Executive Director

Manages the regulatory, financial, and administrative operations of the BCSC. Leads strategic planning process and economic analysis.

CAPITAL MARKETS REGULATION

Lang Evans, Director

Monitors registered firms for compliance with the *Securities Act*. Registers firms and their salespeople. Reviews applications for exemptions from regulatory requirements. Oversees self-regulatory organizations. Conducts education for securities firms.

CORPORATE FINANCE

Martin Eady, Director

Reviews and receipts securities offering documents. Reviews applications for exemptions from regulatory requirements. Monitors public company disclosure, including financial statements. Monitors exempt capital raising and insider reporting. Conducts education for reporting issuers and their advisors.

ENFORCEMENT

Sasha Angus, Director and Chief Litigation Counsel

Investigates possible breaches of the *Securities Act* and takes enforcement action against alleged wrongdoers. Conducts administrative hearings before Commission panels, and represents the BCSC before the courts.

COMMUNICATIONS & EDUCATION

Patricia Bowles, Director

Develops and implements education programs to teach investors what they need to know to protect their financial interests and make informed investment decisions. Manages corporate communications and media relations. Supports industry education initiatives.

INFORMATION MANAGEMENT

Peter Grant, Director and Chief Information Officer

Implements technology strategies to assist the BCSC in its operations. Provides information to industry and the public through the BCSC website and contact centre. Supports BCSC staff through information systems, knowledge sharing, legal research, document and records management, business continuity planning, and project management.

HUMAN RESOURCES & ADMINISTRATION

John Hinze, Director and Chief Financial Officer

Directs human resource, financial, and facilities management functions. Supports the BCSC through recruiting, staff training, performance management, and succession planning. Manages financial and physical risks.

ADVISORY COMMITTEES

We have four advisory committees that help us accomplish our mission.

Securities Law Advisory Committee

The Securities Law Advisory Committee (SLAC) advises the Commission on legal and policy issues relating to securities regulation. It provides an important link between the Commission and securities lawyers for consultation on emerging issues. The committee has 10 to 12 members. Members serve for staggered terms of three years, renewable for one additional term of three years. The vice chair of the Securities Law Subsection of the Canadian Bar Association's BC Branch, also serves on the committee.

Securities Policy Advisory Committee

The Securities Policy Advisory Committee (SPAC) represents a cross-section of market participants and gives the Commission independent advice on administrative, regulatory, and legislative matters affecting the securities industry. The committee may have up to 12 members. Members serve for staggered terms of three years, renewable for one additional term of three years.

Technical Forum of the Institute of Chartered Accountants of BC

A body of the Institute of Chartered Accountants of BC, the forum offers an opportunity for practicing members serving publicly traded companies to discuss their concerns with representatives of the BCSC and TSX Venture Exchange. It also provides a venue for the BCSC and the exchange to discuss with accounting professionals future policy directions and the possible impact on public companies and their auditors.

CSA Mining Technical Advisory and Monitoring Committee

The committee is made up of mining industry technical representatives who provide advice to the regulators on the application of National Instrument 43-101 *Standards of Disclosure for Mineral Projects*, on mineral industry and professional developments related to securities regulatory issues, and on how to best communicate guidance on technical disclosure to the mineral industry. There were nine committee members in 2005–06, including four from BC, and two observers from the TSX and TSX Venture exchanges.

SERVICE DELIVERY

SELF-REGULATION

While our requirements apply to all securities firms, we monitor directly only those firms registered as portfolio managers, exchange contract dealers, and scholarship plan dealers (approximately 60% of registered firms and 10% of the individuals registered in BC.) We rely on self-regulatory organizations (SROs) to perform key regulatory functions related to investment dealer and mutual fund dealer firms. Under powers provided in the *Securities Act*, we oversee these organizations in cooperation with our regulatory colleagues in other jurisdictions. These SRO organizations are:

- **Investment Dealers Association of Canada (IDA)** – the self-regulatory organization for investment dealers, which registers securities firms and their representatives under the Act and regulates their conduct and capital adequacy
- **Mutual Fund Dealers Association of Canada (MFDA)** – the self-regulatory organization for mutual fund dealers, which regulates their conduct and capital adequacy
- **Market Regulation Services (RS)** – the market regulation services provider, which monitors trading activity on the Canadian equity markets and helps monitor listed companies' compliance with exchanges' timely disclosure and other requirements

EXCHANGES

The BCSC shares responsibility with the Alberta Securities Commission (ASC) for supervising the operations of the TSX Venture Exchange. We have authorized three other exchanges (TSX, NASDAQ, and CNQ) to carry on business in British Columbia, and rely on other jurisdictions to oversee their operations.

NATIONAL REGULATION

The BCSC participates in Canada's national system of securities regulation through the Canadian Securities Administrators (CSA). Through executive and staff committees, the CSA seeks to avoid duplication and streamline the regulatory process by collaborating on compliance and enforcement activities, issuing rules and guidance, and delivering education programs.

The CSA is working with governments to develop a passport system for securities regulation. The goal of the passport system is to let a market participant access the whole Canadian market by dealing solely with its home regulator in most situations.

We rely on national systems operated by CSA to collect and distribute much of the information essential to our operations. These systems are:

- System for Electronic Document Analysis and Retrieval (SEDAR)
- National Registration Database (NRD)
- System for Electronic Disclosure by Insiders (SEDI)
- National Cease Trade Order Database

This year, BCSC staff led CSA's implementation of the first phase of the passport system contemplated under the September 30, 2004 *Memorandum of Understanding Regarding Securities Regulation* signed by most provinces and territories. In 2005, CSA implemented phase one of passport, through the following initiatives:

- Multilateral Instrument 11-101 *Principal Regulator System* (adopted by all jurisdictions but Ontario). It provides various exemptions in non-principal jurisdictions from requirements that normally apply to issuers and registrants that operate or have securities trading in multiple jurisdictions.
- Amendments to National Policy 43-201 *Mutual Reliance Review System for Prospectuses* and changes in related administrative procedures, which shorten and streamline the review period for prospectus filings.
- National Instrument 31-103 *National Registration System*, which provides exemptions to allow a firm or representative to register in a non-principal jurisdiction based on meeting the qualifications in the principal jurisdiction.
- National Instrument 45-106 *Prospectus and Registration Exemptions*, which harmonizes and streamlines most exemptions across jurisdictions and therefore allows issuers to conduct private placements and other exempt transactions in multiple jurisdictions on a consistent basis.

BSCS staff worked with the government to develop a set of legislative amendments to the *Securities Act* that gives the BCSC additional tools to develop the passport system, enables greater harmonization of regulatory requirements, and strengthens enforcement powers and penalties. Bill 20 was introduced in the legislature March 30, 2006 and received Royal Assent on May 18, 2006.

BCSC staff led a comprehensive review of National Instrument 43-101 *Standards of Disclosure for Mineral Projects* to make it easier and less costly for mining companies to comply.

The BCSC worked with the CSA to refine the scope of requirements to be imposed on issuers for internal controls over financial reporting. CSA will not proceed with the previously proposed rule that was aligned with section 404 of the US *Sarbanes-Oxley Act*. Instead, CSA plans this fall to publish for comment less onerous requirements that provides a better balance of costs and benefits for investors.

In addition, staff worked with CSA to adopt several instruments to:

- Consolidate and harmonize requirements for mutual fund continuous disclosure (National Instrument 81-106 *Investment Fund Continuous Disclosure*)
- Improve corporate governance disclosure by Canadian companies (National Policy 58-201 *Corporate Governance Guidelines and* National Policy 58-101 *Disclosure of Corporate Governance Practices*)
- Make the more streamlined short form prospectus offering system available to most issuers listed on Canadian exchanges (Revised National Instrument 44-101 *Short Form Prospectus Distributions*)

INTERNATIONAL COOPERATION

The BCSC regularly cooperates and coordinates with US federal and state regulators in enforcement matters. We are also active in three organizations that represent North American, pan-American, and international securities regulators, respectively:

- **North American Securities Administrators Association (NASAA)** – an organization of Canadian provincial, American state, and Mexican federal securities regulators
- **Council of Securities Regulators of the Americas (COSRA)** – a forum for mutual cooperation and communication among securities regulators in North, South, and Central America, and the Caribbean. COSRA focuses on investor protection, market integrity, regulatory cooperation, and information sharing.
- **International Organization of Securities Commissions (IOSCO)** – the international authority for global cooperation related to regulatory standards, surveillance, enforcement, and information exchange among securities regulators.
- We have several formal memoranda of understanding (MOUs) with foreign regulators that establish processes and expectations for assisting each other in gathering information for investigations. We have entered MOUs with the national regulators of the US (1988), France (1992), Australia (1996), Hong Kong (1996), and China (2003.) In 2003, we were accepted as a signatory to the IOSCO Multilateral MOU, which is intended to provide a common basis for information sharing among as many IOSCO members as possible. To be accepted as a signatory, a jurisdiction must show that it has the legal and administrative capacity to fulfill the commitments. As of March 31, 2006, 30 IOSCO member regulators had signed the multilateral MOU.

NATIONAL AND INTERNATIONAL REGULATORY STANDARDS

Our capital markets are highly integrated with other markets, nationally and internationally. Most BC investors, public companies, and securities firms must rely on, and comply with, regulatory standards of other provinces and countries. Regulators in other jurisdictions rely on us to regulate BC market participants to appropriate standards.

The *Objectives and Principles of Securities Regulation* published by IOSCO have become the international standard for evaluating regulatory systems. We have participated with other CSA members in a self-assessment of our system against this standard.

BCSC Education Fund

The BCSC established an Education Fund in 1991 to receive revenue from administrative penalties and settlements imposed on market participants who violate securities regulations. Under the *Securities Act*, we may only spend this money to educate securities market participants and members of the public about investing, financial matters, or the operation or regulation of securities markets.

We fund education projects both directly and in partnership with others. We evaluate each proposed project against criteria to assess the need for the project, the project's design and success measures, a potential partner's background and experience, and the degree to which the project's goals align with the BCSC's service and operating plans.

During 2005 - 2006, we screened 18 Education Fund proposals and approved 14 of them. Four others were rejected or withdrawn.

The chart below details disbursements during the year, and commitments as of March 31, 2006.

	DISBURSEMENTS	COMMITMENTS
Continued developing curriculum, materials and website for the Ministry of Education mandated planning finances course for Grade 10 students.	$488,929	
Established a three-level educational program for pension plan trustees.	$98,750	$66,250
Sponsored Junior Achievement to deliver up to 235 programs to Grade 8 students throughout BC (5th year).	$97,600	$150,200
Conducted research with labour unions for the delivery of pre-retirement investor education to union members.	$97,255	
Delivered a program to raise awareness about affinity fraud among various religious communities in the Fraser Valley, including programs to educate future religious leaders through colleges (2nd and 3rd years).	$89,000	$70,000
Continued a variety of smaller education initiatives, including: annual crime symposium; plain language training for IDA staff; presentations to corporate secretaries on NI 54-101 *Communication With Beneficial Owners of Securities of a Reporting Issuer*; investor education kits.	$88,972	

	DISBURSEMENTS	COMMITMENTS
Supported BC consumer and investor awareness events through the Better Business Bureau Vancouver Island's inaugural Ethics Expo 2005 and the Better Business Bureau of Mainland BC's fourth Scam Jam 2006.	$50,000	$15,000
Partnered with the ASC and OSC education funds to create a free six-part online education program for Chinese immigrants.	$35,738	$7,276
Sponsored a college and university initiative to educate students about the stock market (3rd year).	$30,000	$10,000
Completed research on the Eron Mortgage fraud.	$27,341	
Delivered a series of industry seminars to explain amendments to NI 43-101 *Standards of Disclosure for Mineral Projects*.	$23,446	$3,200
Partnered with the BC Coalition for Elimination of Abuse of Seniors to deliver a *Protect Your Money* program using a seniors teaching seniors' approach.	$22,000	$6,000
Sponsored an industry forum to explore issues surrounding proposed MI 52-111 *Reporting on Internal Control over Financial Reporting*.	$19,920	
Distributed affinity fraud brochures to over 20,000 clients of a local securities dealer.	$18,742	
Partnered with the British Columbia Institute of Technology to develop a specialty certificate in securities fraud analysis.	$10,000	$15,000
Partnered with the Justice Institute of BC to develop and implement a variety of courses for compliance officers.		$34,500
Partnered with the UBC Mineral Deposit Research Unit to prepare a business plan for new programs that integrate technical exploration knowledge with the regulatory and business environments.		$15,000
TOTAL FUNDING APPROVED IN FISCAL 2005–06	**$1,197,693**	**$392,426**

GIVING YOUNG PEOPLE FINANCIAL SKILLS FOR LIFE

Our Planning 10 teacher and student resource is in high demand with secondary school teachers throughout the province.

Planning 10 is a mandatory Grade 10 course in British Columbia, designed to give young people the life skills they will need as adults. It has five components, one of which is finances.

The BCSC developed a comprehensive, easy-to-use and fun resource for the finances component of Planning 10. It includes a teacher binder of lesson plans, student worksheets and materials, a DVD on the investment process, posters, a website, and a province-wide teacher training program.

Young British Columbians face a complicated financial future. We want to ensure that students acquire the knowledge, skills, and confidence they will need to begin planning for life after high school, to make sound financial choices and protect themselves from unsuitable investments and scams.

Since we launched our resource in November 2004, demand for it has continued to grow. Over 1,000 teachers have requested it and teachers in 59 out of 60 school districts are using it. To date, we have trained over 430 teachers across BC.

In May 2005, we surveyed teachers who had requested our resource. We wanted to know how they used it, whether they thought it was an effective teaching tool, and if they had suggestions for any improvements.

- 137 teachers completed the survey.
- 96% of those who responded said they intended to use the resource again.
- 50% of those who responded said they personally learned something by using our materials.

Our resource has won a number of awards including:

- 2005 Gold from the Canadian Marketing Association
- 2005 Golden Reel from the Media Communications Association International (for the DVD)
- 2006 Gold Quill Merit from the International Association of Business Communicators

ERON MORTGAGE STUDY

During the years 1993 to 1997, some 2,800 British Columbians invested about $220 million in syndicated mortgage securities offered by Eron Mortgage Corporation. Eron claimed the investments were secured by real estate and promised high rates of return. The investment scheme turned out to be a major fraud. The investors lost more than $175 million. The main promoters of the scheme, Brian Slobogian and Frank Biller, were subject to regulatory sanctions and, after pleading guilty to criminal charges, were sentenced to prison.

In 2004, the BCSC commissioned a study by Professor Neil Boyd of Simon Fraser University to learn more about how investors are victimized by this type of fraud. This is the first detailed empirical study of a single investment fraud. The study comprised: two surveys of 2,285 individuals known to have invested in various Eron properties and corporations between 1993 and 1997; interviews with 180 of these investors; and an examination of what can be learned from the fraud itself revealed through records, interviews and experts in regulatory law, accounting and investment fraud.

The study identified two major kinds of vulnerable investors. The first were people approaching retirement without adequate resources and wanting to maintain a dignified lifestyle beyond their working years. Most took money from their existing retirement funds, borrowed money, or mortgaged their homes to participate in the scheme. The other were affluent middle-aged males who considered themselves to be highly knowledgeable about investments.

The study also revealed the economic and social impact of financial loss on individuals and their community. More than half of those who lost more than $50,000 reported extreme or major harm to their emotional well-being, their current financial situation, and their retirement security.

Based on these findings the BCSC is modifying its investor education strategy to include both of these target groups. The new strategy will be rolled out in the fall of 2006.

ALIGNMENT WITH GOVERNMENT'S STRATEGIC PLAN

The BCSC Service Plan aligns with Goal 1 and Goal 5 in the government's Strategic Plan. The other three goals do not relate to our mission.

GOVERNMENT GOAL 1

Make BC the best-educated, most literate jurisdiction on the continent

We support this goal in the following ways:

- We provide BC high school teachers with an award-winning financial literacy program for youth. This Ministry of Education-endorsed resource for the Planning 10 Finances curriculum helps young people acquire the knowledge, skills, and confidence they will need to begin planning for their post-secondary education or career, and to navigate safely through the financial realities of adulthood.
- Through direct participation in Junior Achievement, and the Portfolio Management Challenge, we support investor education that targets grade 8 students and post-secondary students respectively.
- We support lifelong learning by offering investor education throughout the province, primarily to seniors and pre-retirees. *Our Investigate Before You Invest* program teaches how to avoid becoming a victim of fraud and how to avoid making unsuitable investments.

GOVERNMENT GOAL 5

Create more jobs per capita than anywhere else in Canada

We support this goal in the following ways:

- By fostering a local market that is fair and warrants investor confidence, we further BC's reputation as a leading centre for raising capital and as a good place to invest.
- By minimizing the regulatory burden, we encourage investment in BC by fostering a dynamic and competitive securities industry that makes our province attractive to launch and grow businesses and to raise capital.

Both of these aspects of our business support job creation.

Report on Performance

During 2005–2006 we identified two key opportunities:

- Continued development of outcomes-based regulation
- Reforming national approach to securities regulation

We also identified three key risks:

- Abusive junior market practices
- Inadequate disclosure from advisers to clients
- Insufficient information for investors about new and complex products

GOALS, STRATEGIES, PERFORMANCE MEASUREMENTS

We had four goals for cost-effective regulation that together summarized how we carry out our mission:

- Follow a lean approach to policy-making
- Promote a culture of compliance
- Act decisively against misconduct
- Educate investors and industry

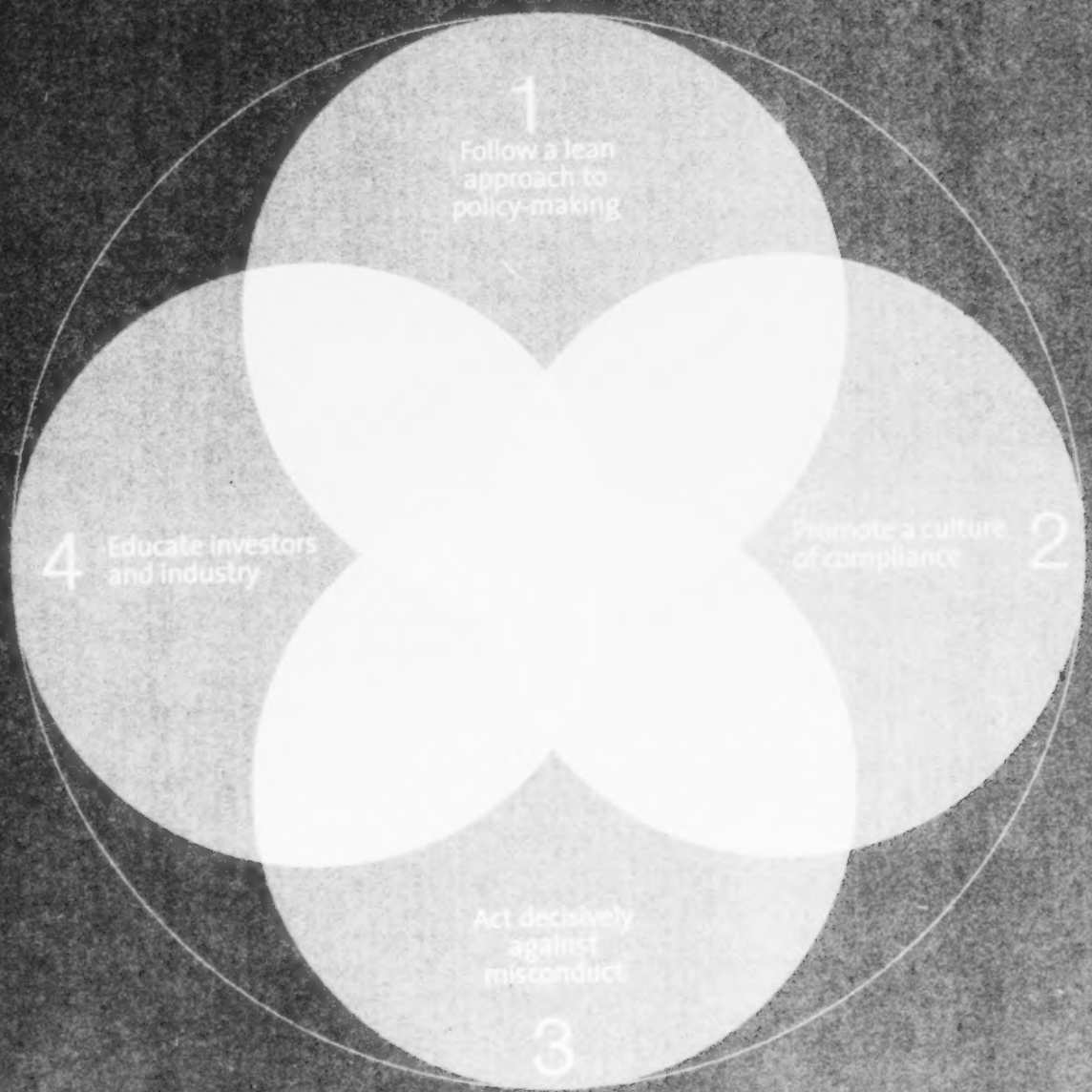
We developed performance measurements for each goal to help us and our stakeholders assess our progress.

In 2005–2006, we were in the early stages of implementing measurements to better assess our effectiveness. We began with measurements for which we had data to set a baseline. The experience we gained during the year helped us identify the following criteria for selecting measurements as we move forward:

- **Connection to our goals.** We select measurements that show our progress in achieving our goals and, through them, our mission.
- **Connection to the results of our work.** We select measurements that show the results of our efforts, not the amount of effort itself. We measure effectiveness, rather than count regulatory processes.
- **Longevity.** We choose measurements we will be able to track over several years, and whose trends will be informative.
- **Measurability.** We choose measurements only if we can accurately collect data and form baselines and if we can report on them in a timely way.

Changed in 2006–2009 Service Plan to Advance smart rule-making and guidance

goals for cost effective regulation



GOAL 1 | FOLLOW A LEAN APPROACH TO POLICY-MAKING

We describe our policy-making approach as "lean" because we want to avoid imposing complex, voluminous rules and policies. Investors ultimately bear the cost of regulation so we strive to maintain an outcomes-focused, streamlined, and simplified system of regulation that improves investor protection without imposing disproportionate costs.

Our approach to regulation begins by identifying problems and risks, assessing their impact on or threat to investors and markets, and determining the most appropriate response. We consider all regulatory tools – education, guidance, rulemaking, compliance reviews, and enforcement actions – before deciding what mix of responses best answers the problem. Rule-making is just one regulatory tool we can use to protect investors and foster fair and competitive markets. It is an important and powerful tool, but it is the most intrusive and may have adverse effects, such as limiting competition, slowing innovation, increasing costs, and encouraging a loophole mentality.

We had three strategies to support this goal and two measurements to track our progress.

STRATEGIES

Work with government to implement new securities legislation in British Columbia

We began the year expecting that the government would bring the 2004 Securities Act into force sometime in the fall of 2005. All operating divisions were ready to update plans for implementing the new Act to ensure a smooth transition without major disruptions to industry. We anticipated that staff would redirect their attention from other strategic priorities to complete the transition at the appropriate time.

In late 2005, we concluded that we could better pursue our regulatory goals by working with government and other Canadian securities regulators on the provincial and territorial ministers' passport initiative. Following our recommendation, the government decided, in February 2006, to defer implementing the 2004 Securities Act for at least two years. We put aside all transition planning to focus entirely on other operating priorities, including the national regulatory passport initiative.

We have suspended this strategy.

Work with government and other regulators to improve securities regulation

While anticipating that we would implement the 2004 Securities Act, we also worked with other regulators and governments on passport.

In the first half of 2005–2006, we worked with our CSA colleagues to develop and adopt Multilateral Instrument 11-101 *Principal Regulator System* to implement the first phase of passport. With the decision to put our full weight behind passport, we focused our attention on developing a set of harmonized legislative amendments. These amendments will give CSA members additional tools to develop the passport system further and to facilitate efforts to harmonize securities laws across Canada. The government introduced Bill 20 on March 30, 2006. It received Royal Assent on May 18, 2006.

Bill 20 includes additional tools to strengthen passport and increase harmonization of securities legislation across Canada. It also implements key investor protection provisions from the 2004 Securities Act.

Ensure our guidance processes are flexible and effective

In an outcomes-based system, the regulator does not prescribe how industry should comply with its obligations. Instead, the regulator sets high-level requirements and may provide guidance to help industry understand and interpret those requirements.

During the year, we brought together a cross-divisional team from corporate finance and capital markets regulation to develop a set of lean policy-making principles to ensure that we make rules only when, and to the extent, necessary to deal with the regulatory problem we have identified. Staff developed a scorecard to assess how well we meet these principles for any new rule or rule amendment, and we trained our staff on the methodology.

Our team also articulated the standards we will use to provide written and verbal guidance to industry. We provided training to staff on these standards to provide them with the knowledge and ability to provide appropriate guidance.

Because we want to work with other regulators to improve securities regulation, we decided towards year-end to develop a proposal for published guidance for consideration by CSA in 2006.

In the coming year, we plan to implement the guidance standards we developed last year and will continue to work with our CSA colleagues on these issues. To make the most of industry expertise, and to engage industry in thinking more about how to meet their regulatory obligations under an outcomes-based approach, we will continue consulting on guidance, either by publishing proposed guidance for comment or by consulting interested persons directly.

MEASUREMENTS

Percentage of lean policy-making principles followed for the last five rules implemented

The BCSC is committed to developing a system of regulation that is flexible, outcomes-based, and cost-effective. To support this streamlined and simplified approach to regulation, we need to measure whether we are applying our lean policy-making principles when working on new rules or rule amendments. We do this by using a scorecard that identifies the 13 elements of lean policy-making and sets out criteria for evaluating our success in dealing with each one.

Because the number of new rules adopted in a single year might be small, we score how rigorously we applied the principles in the last five rules we adopted and then calculate a rolling average. We aim to apply these principles increasingly in the rules we adopt over time. The increase from 59% to 66% shown here indicates some improvement in our ability to apply lean policy-making principles with the more recent rules.

STATUS: MET	TARGETS AND RESULTS				
	04/05 Baseline	05/06 Target	05/06 Actual	06/07 Target	07/08 Target
Percentage of lean policy-making principles followed for the last five rules implemented	59%	Improve on 04/05	66%	Improve on 05/06	Improve on 06/07

This measurement is based on the following five rules, or amended rules, put into effect in BC before March 31, 2006: NI 21-101 *Marketplace Operation*; NI 23-101 *Trading Rules*; NI 44-101 *Short Form Prospectus Distributions*; NI 43-101 *Standards of Disclosure for Mineral Projects*; NI 45-106, *Prospectus and Registration Exemptions*.

Our score does not include MI 11-101 *Principal Regulator System* or MI 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*. We implemented these rules under the passport initiative to streamline processes and harmonize our regulatory requirements with those in other jurisdictions.

Our score does include CSA rules. Typically, these national rules involve compromises that lower their scores. In an environment where we do not have complete control over policy initiatives, applying this measurement to our efforts is an incentive for BCSC staff to continue advocating lean policy-making.

Regulatory count

The BCSC must provide the government with a formal count of all regulatory requirements imposed under the Act. Our staff collects the data each time the BCSC adopts or amends a rule, using the government's counting protocol. Had the 2004 Securities Act come into force, the formal count would have decreased by about half. With the current Act still in effect, the actual number of requirements in place as of March 2006 was higher than our December 2004 baseline. The increase reflects the fact that we have adopted a number of national rules. This did not actually increase requirements imposed on market participants, however, because most BC market participants must also comply with requirements in other provinces.

The BCSC's new strategy to achieve lean policy-making (or, as we now call it, *smart rule-making and guidance*) is focused on achieving this goal through our work with CSA on passport and other policy projects. In that context, the regulatory count is not a useful measurement tool and we will not report on it again as a measurement for this goal.

STATUS: DISCONTINUED	TARGETS AND RESULTS				
	04/05 Baseline	05/06 Target	05/06 Actual	06/07 Target	07/08 Target
Regulatory count	22,000	11,000	23,000	N/A	N/A

GOAL 2 | PROMOTE A CULTURE OF COMPLIANCE

Investors rely on securities firms to take their compliance responsibilities seriously and on issuers to provide accurate, complete, and timely public disclosure. Effective regulation depends on market participants having systems and controls in place to comply with their regulatory obligations, and then reviewing and modifying them as necessary. Regulatory intervention should be necessary only occasionally to correct non-compliance. An effective culture of compliance starts with management integrity and aligns the private interests of market participants with the public interest in a fair, efficient, and reputable securities market.

We had three strategies to support this goal and four measurements to track our progress.

STRATEGIES

Hold firms accountable through outcomes-based processes

In the course of monitoring firms and issuers, we seek to identify and correct non-compliant activity. To administer securities regulation under more outcomes-based standards, BCSC staff must consider issues and interact with market participants in new ways.

In year one of this multi-year strategy, we focused on building our capacity to operate in a more outcomes-based regulatory environment. We consulted with staff to understand the gaps between the way they have traditionally approached their work and a more outcomes-focused approach, and then we hosted a series of internal training workshops to help close those gaps. About one-third of our staff took customized courses to develop their skills in outcomes-based regulation, critical and creative thinking, negotiating, change management, and plain language.

In a second core initiative, senior compliance staff and managers developed case studies to explore outcomes-based approaches to various compliance breaches among reporting issuers or registered securities firms. By analyzing current files and considering options for how to apply outcomes methodology, case study leaders created learning tools from real-life issues for themselves and their colleagues.

Apply our portfolio of compliance processes to the most important problems

We use a range of compliance processes and look for ways to use them efficiently to maximize the compliance benefit for the time we spend. In 2005–2006, we looked at all our compliance processes and evaluated the extent to which they resulted in productive compliance action. We identified some processes that we could eliminate without any loss to effective compliance.

As we continue reviewing and refining our compliance processes through this multi-year strategy, we enhance our ability to improve investor protection by dealing with the more pressing and harmful compliance failures.

Review new and complex investment products, and related due diligence and sales practices

The securities market is susceptible to trends in a particular security or security type. Media coverage, advertising, and word-of-mouth fuel investment fads that can result in sizeable losses for investors who invest too much of their portfolios in investment fads.

To tackle this issue we formed a cross-divisional team with staff from corporate finance, capital markets regulation, communications and education, and the executive director's office. This team researches and monitors new and complex investment products being sold to investors in British Columbia.

The team identified hedge funds and income trusts as products with features and risks that retail investors are unlikely to understand fully. By year-end, the team had examined hedge funds to understand how they were sold and underwritten before stepping up our disclosure reviews of issuer offering documents. We also issued an alert on income trusts to help investors understand how these investments work and the risks associated with investing in them.

In this first year of the multi-year strategy, the team spent much of its time looking at how to collect useful information from the widest range of qualified sources in the most effective and efficient way. By year-end, we had committed to using a wiki[1] to enable staff throughout the BCSC to gather and share new product information.

MEASUREMENTS

Percentage of reviewed issuers that improve their continuous disclosure

Our corporate finance division reviews issuer disclosure for non-compliance. In 2005–2006 we contracted two independent experts to review detected disclosure problems: an independent accountant to review some specific disclosure problems found in a sample of continuous disclosure reviews that had occurred 2003–2004, and an independent geologist to review a sample of specific technical disclosure problems during the same time period.

The review methodology tested for two types of improvement:

1. A measurement for year-over-year improvement that calculates the percentage of the issuer sample that took effective action in response to our compliance efforts.
2. A measurement that calculates the percentage of the issuer sample whose new disclosure materials are compliant overall.

STATUS: SET BASELINE	TARGETS AND RESULTS				
	04/05 Baseline	05/06 Target	05/06 Actual	06/07 Target	07/08 Target
Percentage of reviewed issuers that improve their continuous disclosure	No data for 04/05	Set baseline for accounting disclosure Set baseline for mining technical disclosure	Accounting disclosure: 1. 90% 2. 84% Technical: 1. 66% 2. 47%	Improve on 05/06	Improve on 06/07

Our data show that 29 of the 32 issuers (90%) improved their accounting disclosure in some areas cited by the BCSC, and 27 of the 32 (84%) improved in all areas.

For mining technical disclosure, 10 of 15 issuers (66%) improved their disclosure in the areas we cited. Seven (47%) improved in all areas. In a supplemental analysis, we looked at how well these 15 issuers complied with a broader set of 35 technical requirements. We found seven of the 15 to be mostly or fully compliant with the broader set of disclosure standards.

These baselines indicate the extent to which our detailed continuous disclosure and technical review work motivated non-compliant issuers to improve their disclosure. It focuses only on those we chose to review through our risk-based selection criteria and found to be non-compliant.

[1] A wiki is a type of website that allows users to easily and quickly add, remove, or otherwise edit content. This ease of interaction and operation makes a wiki an effective tool for collaborative writing.

This measurement will always lag by one year because we have to wait for the next filing cycle to evaluate improvements to the prior year's disclosure. By May 2006, for example, we will have the documents needed to review for disclosure improvements resulting from reviews carried out between April 2004 and March 2005.

Percentage of BC-based reporting issuers on defaulting issuers list

The *Securities Act* requires reporting issuers to make filings on time, in the proper form, and with the appropriate fee. One measure of a compliant industry is the number of issuers who consistently meet these filing requirements. We routinely put issuers that do not file on time or pay fees on a list of defaulting issuers. We also put an issuer on the list if our preliminary review shows that a filing is not in the proper form.

We track the number of BC-based reporting issuers on this list over the course of each year, together with the reason: late filing, failure to pay fees, or inadequate filing. If we are successful in building a culture of compliance, we expect the percentage of BC-based issuers appearing on the list to decrease over time.

STATUS: MET	TARGETS AND RESULTS				
	04/05 Baseline	05/06 Target	05/06 Actual	06/07 Target	07/08 Target
Percentage of BC-based reporting issuers on defaulting issuers list	% on list for Late filing 16% Unpaid fees 17% Inadequate disclosure 20% % on list overall: 30%	Improve 04/05	% on list for Late filing 17% Unpaid fees 18.5% Inadequate disclosure 21% % on list overall: 23%	Improve 05/06	Improve 06/07

During 2005–2006, we placed fewer BC-based issuers on the defaulting issuers list at some time during the year (23%). However, we put more issuers on the defaulting list for more than one reason, which explains the increase in percentages for each category of default.

The number of issuers in default varies for one of two reasons. If the BCSC changes standards – for example, by imposing new disclosure requirements, or shortening filing cycles – issuers might take some time to make the necessary changes to their compliance processes. A general downturn in the economy, the market, or a particular sector could also put more issuers in financial difficulty and increase their risk of not meeting their filing requirements.

Timely filing in particular is an indication of a culture of compliance in the broader market. The data we have allow us to see how BC-based issuers compare to other BC-reporting issuers on late filings. Increases of one per cent for both groups indicate that they are on par and that we did not have a particular problem with either.

Average number of deficiencies per investment firm examination

Our capital markets regulation division reviews securities firms that are not SRO members for compliance with their regulatory obligations. In this measure, we categorize the deficiencies across all examinations and average them to get deficiencies per investment firm examination. We used 32 categories of deficiencies in 2004–2005 and increased that to 57 categories of deficiencies by the end of 2005–2006.

This measurement has two limitations. First, because we do risk based examinations, we place a priority on reviewing firms more likely to raise compliance concerns. The measure is therefore based on examination deficiencies found in a small number of higher-risk firms during BCSC compliance examinations concluded over a fiscal year. This means that the average number of deficiencies per examination is almost certainly higher than it would be if we reviewed a cross-section of all firms. Second, we may also decide in a particular year to audit all firms for specific compliance problems, which will raise reported deficiencies in defined areas.

STATUS: MET	TARGETS AND RESULTS				
	04/05 Baseline	05/06 Target	05/06 Actual	06/07 Target	07/08 Target
Average number of deficiencies per examination in Capital Markets Regulation	6.8/32 categories	< 6.8	6.5/32 categories 7.6/57 categories	< 7.6	Improve on 06/07

(a) Based on 22 examinations in 2005 and 24 in 2006.

Our fiscal 2006 examinations showed 6.5 deficiencies per examination in the original 32 categories measured the previous year, a slight decline over the 6.8 baseline average. However, we added 25 categories during the last year: 10 related to mutual fund management; the others related to issues such as discretionary trading, disaster recovery, hiring practices, valuation, and referral arrangements. We want to see the overall number of reported deficiencies in all categories decline over time as firms correct past deficiencies and reinforce a culture of compliance.

Because other Canadian securities regulators do not follow the same system for examination results, we cannot benchmark our measurement against other commissions.

Percentage of BC-based IDA members that fall in the low and medium-low risk segments of the IDA financial risk model

In our 2005–2008 Service Plan, we undertook to report on the percentage of BC-based IDA members with risk ratings in the low and medium-low risk segments of the IDA model. In addition, we benchmarked the measure against the national average. We intended to narrow the gap between the national and BC averages.

In the course of gathering data for this measurement, we found that the IDA financial risk model included business and operating risks. Since we aim to measure regulatory compliance, not business or operating risks, we discontinued this measure to seek others more directly focused on compliance. The IDA continues rating members on financial risk.

STATUS: MET, DISCONTINUED	TARGETS AND RESULTS				
	04/05 Baseline	05/06 Target	05/06 Actual	06/07 Target	07/08 Target
Percentage of BC-based investment dealers with low and medium-low risk scores	BC-based: 55%	≥55%	57%	N/A	N/A
	National: 70%	N/A	74%	N/A	N/A

During the reporting period, the IDA added one new firm to the overall count of BC-based IDA members. The firm received a low or medium-low rating, which increased the percentage of issuers with low and medium-low ratings from 55 to 57 percent. Over the same period, the IDA added 20 new national firms, which changed that category's low and medium-low percentage from 70% to 74%. Because compliance history contributes only a small amount to overall financial risk rating, these changes alone do not signal an increase in compliance culture.

GOAL 3 | ACT DECISIVELY AGAINST MISCONDUCT

Decisive action involves investigating complaints and our own leads to identify market conduct requiring a compliance or enforcement response. It means responding in a timely way to inappropriate activities through compliance actions and to serious or deliberate misconduct through enforcement actions. We promote compliance through the various strategies outlined in Goal 2: *Promote a culture of compliance*. We use enforcement to deter misconduct and remove from the market those who pose a serious threat to investors or market integrity.

We had two strategies to support this goal and two measurements to track our progress.

STRATEGIES

Disrupt abusive junior market practices in British Columbia

Vancouver is a major market for raising venture capital in the public markets. We want to continue being known as a leading centre for financing legitimate start-up companies. In this market, however, there are unscrupulous people who engage in abusive activities involving issuers who trade securities in the US-based over-the-counter market.

In 2005–2006 we recognized the need to strengthen our detection of abusive over-the-counter market activity connected to BC and to allocate greater compliance and enforcement resources to this problem.

Throughout the year, staff from enforcement and corporate finance worked together to identify potential enforcement actions that could create disincentives for abusive stock promotion in British Columbia. The team worked with the most complete information available, drawing internally on cross-divisional surveillance efforts and sharing information. They also worked with outside agencies, leveraging relationships and intelligence with the US Securities and Exchange Commission and the National Association of Securities Dealers surveillance arms, other Canadian regulators, and police agencies.

We expect to see tangible results from this work in the coming year.

The over the counter market is primarily the Over the Counter Bulletin Board (OTCBB) and the "pink sheets." The OTCBB is not a stock exchange but a quotation medium where market makers in an issuer's shares publish the prices at which they are prepared to buy or sell those securities.

In 2005, we identified over 400 OTCBB issuers as having a BC-connection – around 10% of all OTCBB listings. We receive a significant number of inquiries from the SEC relating to over-the-counter issuers with a BC connection. When BC-connected issuers, or trading activity, appear to contravene BC or US securities laws, we pursue the misconduct regardless of where the victims live.

Evaluate the current portfolio and efficiency of enforcement processes

Acting decisively against misconduct involves detecting the misconduct, choosing the right cases to investigate, and applying a variety of tools to deal with the misconduct.

Our litigation caseload typically exceeds our staffing capability. To get the most out of our enforcement resources, we look for ways to better align case selection with strategic priorities and to manage staff effectively when we take on a case. The more sophisticated the case, the more difficulty we have in predicting how long it will take.

This year we dealt with case backlog by improving project and document management. We implemented a system to help staff organize, share, and present case information and another system to support case tracking. We are striving to streamline the mechanical aspect of enforcement work so that staff can engage increasingly in the essential, and more specialized, knowledge work.

On the staffing side, we made a small but highly effective process change that brought litigation staff into the case stream at the investigation stage. We will see the value of this change over time as we track enforcement time spent on productive action.

These process changes are already supporting a more targeted set of strategies for staff allocation. We continue to learn from past cases to improve planning and case timelines.

MEASUREMENTS

Early detection

We detect misconduct through various channels, including complaints, referrals, surveillance, and our own compliance monitoring. During the year, we review cases that originated from external complaints to see what percentage we could have detected earlier with better internal compliance monitoring.

We expect that, over time, the combined effects of earlier detection and improved investor education will enable us to act more decisively against misconduct and reduce harm to investors. We are not aware of any other jurisdiction that has established a similar measure.

STATUS: MET	TARGETS AND RESULTS				
	04/05 Baseline	05/06 Target	05/06 Actual	06/07 Target	07/08 Target
Percentage of cases from external complaints[1] that could have better internal compliance monitoring	7%	< 10%	8%	< 10%	< 10%

(1) We exclude complaints about MFDA and IDA members because we refer most complaints against those members to the SROs.
(2) The target is higher than the baseline because the measurement includes a small number of cases (5 of 68 in baseline).

During 2005–2006, 8% of the complaints we received from the public concerned behaviour by market players we oversee through current compliance processes. These cases involved firms failing to detect registrant misconduct, insiders trading on takeover bid information, and issuers filing offering memoranda in an improper form.

Most misconduct arising from issuers, insiders, and firms comes to enforcement through our compliance channels. By contrast, public complaints more often focus on market activity outside the formal compliance work, such as illegal distributions. As our ability to detect misconduct earlier improves, we expect to see this measurement approach zero.

Percentage of enforcement time spent on productive action

We want to improve our performance over time by putting more resources towards identifying the more serious misconduct and taking public action against it. This measurement expresses how effective we are at allocating resources to cases that warrant enforcement action. We state it as the percentage of total investigation and litigation time that we spend on productive action. Productive action involves a notice of hearing, entering into a settlement, or closing a case in a timely way. We assess timeliness through post mortem analysis in cases where we close investigations without action. Increasing this percentage over time would indicate that we are becoming more effective at allocating resources to cases we eventually prosecute or settle.

STATUS: SET BASELINE	TARGETS AND RESULTS				
	04/05 Baseline	05/06 Target	05/06 Actual	06/07 Target	07/08 Target
Enforcement time spent on productive action	No data for 04/05	Set baseline	73%	Improve on 05/06	Improve on 06/07

For the trackable time we spent on cases closed in investigations and litigation in the last year, 74% of the total hours resulted in productive action.

Much of the actual time enforcement staff spent in the past year is not included, because many investigations remain open. We introduced our time reporting system in December 2004. Because we opened many cases included in the data before then, we could track only 57% of the days these cases were open. Future reporting will provide better statistics.

To our knowledge, no other agencies measure in this way.

GOAL 4 | EDUCATE INDUSTRY AND INVESTORS

Investor education strengthens our regulatory system by teaching retail investors how they can protect their own financial interests. Our programs target four audiences: seniors, pre-retirement adults, religious congregations, and youth. We teach adult investors how to identify "red flags" for fraudulent activity and provide information to help them make suitable investments, in part by choosing a registered adviser and conducting due diligence on investment products they consider. Our youth education focuses on financial literacy.

Industry education is a fundamental compliance tool used to communicate the standards of conduct that we expect from the regulated community. We design our industry education programs to help issuers and securities firms understand and comply with securities law. We also host industry conferences as part of our commitment to industry consultation.

We had three strategies to support this goal and one measurement to track our progress.

STRATEGIES

Expand core investor education theme and messages

In April 2005, we published a detailed empirical study of the Eron Mortgage fraud. This research told us that most Eron Mortgage victims were average British Columbians, with average income and net worth, who were looking for additional income sources for their approaching retirement. These findings helped us refine our investor education program and target audiences.

Early in the fiscal year, we analyzed our core *Investigate Before You Invest* seminar to evaluate its effectiveness and relevance. As a result, we updated the seminar with new content to better reflect fraud activity in specific regions. We also revised our post-seminar survey, which measures the extent to which people remember our key messages up to two months after hearing them.

In January 2006, our communications and education department became a division with the appointment of the BCSC's first communications and education director and we started developing a new education strategy. While we did this work, we halted the *Investigate Before You Invest* seminars and a number of education fund projects. We have now completed secondary research using in-house staff, identified areas for further ongoing research, and further defined our target audiences.

We will work with the CSA and other regulators to build a more cohesive, comprehensive national approach to investor education and will launch the new BC investor education strategy in fall of 2006.

Educate investors about new and complex products

During the year, the BCSC implemented a number of web-based tools to augment our distribution channels to investors and industry, including an email subscription service. Anyone can receive information that the BCSC publishes by sending us their contact information and pre-selecting the type of information – for example, the disciplined persons list, policy notices or events – they want to receive.

Visitors to the BCSC website can also subscribe to our RSS (*really simple syndication*) feeds to get news delivered directly to their desktops or browser-based RSS aggregator. We currently have five RSS feeds.

At year-end, we relied on these delivery channels to circulate our first investor alert on income trusts to support the new and complex products strategy that is part of our goal to foster a culture of compliance.

Continue to educate industry about securities legislation

We hosted or participated in more than 15 education events for industry during 2005 – 2006. These included:

- A directors and officers forum to explain and seek feedback on CSA's proposed rule on internal controls over financial reporting.

- Breakfast information sessions for corporate secretaries to raise awareness about new requirements affecting beneficial owners of securities
- Mining industry seminars and conferences to improve understanding about changes to the mining disclosure standards
- A lecture on penalty reform by the executive vice president of enforcement of the New York Stock Exchange, co-sponsored with the UBC Faculty of Law

We automated our contact database this year, using customer relationship management software, and implemented changes to our events' registration system to improve efficiency and enhance usability.

Hereafter, we will rely on BCSC operating divisions to deliver industry education programs to support our goals to foster a culture of compliance and advance smart rule-making and guidance. The communications and education division will provide event management and creative support for programs conceived and delivered by staff in the relevant operating divisions.

MEASUREMENT

Investor retention rate of key messages by follow-up surveys

Education programs are only successful if we achieve our learning objective. We want to develop programs in ways that will maximize the opportunities for people to learn and recall the information that will help them make better investment decisions. In the past, we measured attendees' satisfaction with our seminars. In 2005–2006 we began measuring our ability to successfully deliver messages that participants could later recall.

STATUS: SET BASELINE	TARGETS AND RESULTS				
	04/05 Baseline	05/06 Target	05/06 Actual	06/07 Target	07/08 Target
Investor retention of key messages by follow-up surveys	No data for 04/05	Set baseline	Percentage of respondents knowing - All three main messages: 63% - At least three red flags of fraud: 67% - All least three due diligence techniques: 33% - Commission decisions don't return investor losses: 92%	Improve on 05/06	Improve on 06/07

This year we tested key message retention by sending, up to two months after they attended one of our seminars, paper- and web-based surveys to 900 seminar attendees. The survey asked several open-ended questions and had one question about the services the BCSC provides to the public.

The resulting measures come from such a small sample (3% of those to whom we sent surveys) that they have no statistical significance. We are considering more effective measurement tools to improve on this measurement in the coming year.

Enforcement

Regulatory requirements are effective only if they are enforced. We use other tools, such as education and compliance examinations, to encourage market participants to understand and comply with regulatory standards. Ultimately, the most powerful tool we have is a credible enforcement program that deters inappropriate and illegal market conduct and sends a strong message to the market and the public. Enforcing the *Securities Act* is one of the most important ways we can fulfill our mission to protect investors and ensure fair and efficient capital markets.

HOW WE IDENTIFY AND INVESTIGATE POSSIBLE MISCONDUCT

The BCSC's process for dealing with misconduct starts with the intelligence and assessment branch of our enforcement division. This team receives complaints and referrals from investors, securities industry participants, other regulatory and enforcement agencies, and BCSC divisions that monitor market conduct and disclosure. Last year, we handled 230 complaints. Many of these represented multiple violations, including:

- 85 related to unregistered activity
- 62 related to illegal sales of securities
- 47 related to fraud
- 45 related to registrant misconduct
- 59 related to director and officer misconduct
- 54 involving civil disputes outside our mandate

The intelligence and assessment branch handles files in different ways, depending on the circumstances. It can pass a file to another regulator or law enforcement agency, resolve it through staff action such as a caution letter, or refer it to our investigation branch. Sometimes enforcement closes files without taking action if, for example, we decide it is not in the public interest to pursue the matter. The branch might also refer a complaint to the BCSC's capital markets regulation division or corporate finance division if it involves a registrant or public company.

LEGAL PROCEDURES FOR HANDLING CASES OF MISCONDUCT

If a BCSC investigation produces appropriate evidence to support allegations of misconduct, the executive director can initiate an enforcement proceeding by issuing a notice of hearing. In this process, a panel of commissioners conducts a hearing to consider the allegations and any enforcement orders requested by staff. Alternatively, a person against whom allegations are made can agree to a negotiated settlement with the executive director by admitting misconduct and consenting to an enforcement order, a financial payment, or other appropriate remedies. We publish all notices of hearing, orders, and Commission decisions and settlements on the BCSC website. A person against whom the Commission makes a decision can ask the British Columbia Court of Appeal to review it. That person or the BCSC can also ask the Supreme Court of Canada to review a decision of the appeal court.

Since our last annual report, the BCSC has issued seven notices of hearing naming 17 parties, concluded settlements with 35 parties, and held six hearings (excluding set date and other interim matters).

			MATTERS CONCLUDED				APPEALS	
	Proceedings Commenced	Interim Orders	Findings Issued	Sanctions Ordered	Settlement Agreements	Withdrawn	Decisions Appealed	Appeal Decisions Rendered
Apr 1, 05 – Mar 31, 06	2	7	4	8	26	2	2	2
Apr 1, 04 – Mar 31, 05	17	2	1	10	27	0	1	1

ENFORCEMENT | HIGHLIGHTS
(April 2005 – June 2006)

SETTLEMENTS

XrayMedia Inc. and Raymond Christopher Dabney

Dabney, a BC resident, was a majority shareholder, the president, chief executive officer and a director of XrayMedia, a firm incorporated in Minnesota that trades its securities on the US-based over-the-counter market. The company's employees, operations and computer servers are located in Vancouver. XrayMedia purports to be a full-service advertising agency that hosts an internet-based marketplace for buying and selling advertising that it lists as "media inventory".

Between March and September 2003, Dabney issued 22 news releases on behalf of XrayMedia. These contained misrepresentations about the company's revenue, its commissions earned, and the inventory sold through its internet-based marketplace. In July 2003, Dabney issued a news release on behalf of XrayMedia that, contrary to the *Securities Act*, said the company's shares would yield a profit of $0.02 a share.

Dabney agreed in a settlement to pay the BCSC $30,000. The BCSC banned him for at least five years from being a director or officer, trading in securities, and engaging in investor relations activities.

James Nelson McCarney, Trevor William Park, Brent Edgson and Mark Stephen Heeres, Del Michel Albert Delisle, and 526053 BC Ltd.

McCarney and Park solicited 253 BC residents to invest about $4.5 million in 526053 BC Ltd., a BC numbered company owned by McCarney. They did this without a prospectus and without registration to trade securities, contrary the *Securities Act*. In all, they directly and indirectly raised about $26.6 million from 1,435 investors in seven provinces and elsewhere around the world. Edgson, Heeres, and Delisle helped sell the investments.

McCarney and Park also violated the Act when they did not tell investors that money invested in the numbered company was used to settle a lawsuit involving another company for which McCarney served as an officer and director. They also acted contrary to the public interest in a scheme that sidestepped regulatory authority by using out-of-province addresses to disguise that they were selling to Saskatchewan residents. Park also admitted that he made a false statement in a record filed with the BCSC.

Since our last annual report, the BCSC has issued seven notices of hearing naming 17 parties, concluded settlements with 35 parties, and held six hearings (excluding set date and other interim matters).

	MATTERS CONCLUDED	APPEALS

ENFORCEMENT HIGHLIGHTS

SETTLEMENTS

XrayMedia Inc. and Raymond Christopher Dabney

James Nelson McCarney, Trevor William Park, Brent Edgson and Mark Stephen Heeres

Del Michel Albert Delisle, and 526053 BC Ltd

McCarney was already subject to a 1999 BCSC cease-trade order. Park was a former mutual fund salesperson.

Under settlements with the BCSC, McCarney agreed to pay $100,000. Park agreed to pay $5,000 and admitted that he would have faced a sanction of $75,000 had there been any reasonable prospect that he could pay that amount for his misconduct. Edgson agreed to pay $40,000 and Heeres $2,500. Had there been any reasonable prospect of the sanctions being paid, Heeres would have been required to pay $30,000 and Delisle $10,000.

McCarney, Park, Edgson, Heeres, and Delisle are banned from trading securities, being a director or officer, and engaging in investor relations activities, except in limited circumstances, for 20, 12, 10, 8, and 6 years. The numbered company was also cease-traded for at least 20 years. In 2006, the Alberta Securities Commission also issued enforcement orders against McCarney and Park.

Michael Fenwick French

Michael Fenwick French breached the *Securities Act* by acting as an unregistered portfolio manager between June 2000 and June 2003, losing $2.3 million of investors' money. French pooled investors' money in accounts with his own money and traded securities on a discretionary basis through his personal online trading accounts and by making private investments. French guaranteed people an annual rate of return of 10 per cent plus a share of any profit in excess of that guaranteed return. He provided each investor with an annual statement showing their initial investment plus the guaranteed return. French had no expertise or training in investing or advising and did not address with investors the inherent risks associated with his investing strategy.

In a settlement with the BCSC, French recognized that he would have faced a $50,000 sanction except that he was insolvent. He may not buy or sell securities, except in limited circumstances, be a director or officer, and engage in investor relations activities for 15 years.

Dianne Oslund

In March 2000, Oslund purported to sell $765,000 of shares in Savage Tele.com Corp. to eight investors from Alberta and the US. Oslund claimed to be the company's chief operating officer and told investors that Savage Tele.com was incorporated in BC or Delaware. In fact, the company had never been incorporated and did not exist.

Oslund helped draft a business plan containing false statements, helped disseminate it to investors, and signed share subscription agreements supposedly on behalf of the company. When investors demanded their money back, Oslund was part of an arrangement in which she received some of the money and did not return any to the investors.

She admitted to making misrepresentations, defrauding investors, trading while unregistered, and illegally selling securities without a prospectus.

In a settlement, the BCSC banned Oslund from trading securities, being a director or officer, or engaging in investor relations activities for 15 years. The Alberta Securities Commission subsequently issued enforcement orders against Oslund.

Martin Raymond Hall

Hall, a BC resident, was a registered salesperson at Foresight Capital from January 1999 to July 2002. During his employment at Foresight, Hall recommended that two clients purchase mutual funds using money borrowed against the equity in their homes. The clients had modest net worth, limited income, little or no investment experience, and low tolerance for investment risk. Hall breached the *Securities Act* when he recommended unsuitable and inappropriate leveraged investments for the clients, and signed a client's name on account and bank transfer documents.

In a settlement, the BCSC barred Hall from trading securities, other than mutual funds, for three years, except in limited circumstances. His registration is subject to conditions for at least 12 months, including strict daily supervision over his personal trading and his dealings with clients.

James Harvey Cameron and Venture Trading Inc.

Between May 2002 and August 2003, Venture Trading Inc., an Alberta company, distributed $143,500 in securities to eight BC individuals without complying with registration and prospectus requirements. The company also provided shareholders with access to a password-protected website on which Venture gave false information about the monthly return of its preferred shares. As Venture's controlling shareholder, president, secretary, and only director, Cameron was responsible for the company's illegal distribution and website misrepresentation to shareholders.

In a settlement, Cameron agreed to pay $10,000. The BCSC banned him from trading securities, acting as a director or officer, and engaging in investor relations activities for four years. The BCSC also banned Venture from trading securities for four years.

Michael Alan Wilson and Rene Co

Wilson, a former registered salesperson, admitted to personally engaging in two pre-arranged trades of the securities of Golden Fortune Investments. These trades resulted in a misleading appearance of trading activity in the company's shares, contrary to the *Securities Act*. Wilson was also the registered representative of nominee accounts used to hide or disguise abusive trading of Golden Fortune's shares.

Co admitted that between November 2001 and October 2002 he failed to notice and prevent a nominee trading account from conducting matched trades in the securities of Golden Fortune Investments. As a registered representative, Co should have known that the account was a nominee account and was being used to hide or disguise abusive trading of Golden Fortune's shares.

In settlements, Wilson and Co each agreed to pay $5,000.

The BCSC banned Wilson from buying or selling securities, except in limited circumstances, being a director or officer, and engaging in investor relations activities for at least five years. He must complete industry conduct and practices training within two years of applying for registration.

The BCSC banned Co from being a director or officer and engaging in investor relations activities for at least two years. He too must complete industry conduct and practices training within two years.

The enforcement orders against Wilson and Co remain outstanding until they complete their settlement payments.

Union Securities Ltd., John P. Thompson, Rex W. Thompson, Norman F. Thompson, and Trevor Koenig

John, Rex, and Norman Thompson are the principals of Union Securities, a Vancouver-based investment firm. John Thompson is Union's chief executive officer and the ultimate designated person responsible for the firm's compliance. Trevor Koenig was a registered representative at Union.

From 1999 to 2001, four registered representatives at Union, including Koenig, had US dollar accounts for 40 non-Canadian clients that primarily traded securities on the US-based OTC BB. The representatives breached their "know your client" and gatekeeper obligations under the *Securities Act*, as well as industry anti-money laundering standards, in relation to those accounts.

In February 2001, Koenig pleaded guilty in the US to conspiracy to commit securities fraud and wire fraud in connection with the manipulation of securities he traded from Union accounts for Edward Durante. The court sentenced Koenig to 22 months in prison plus three years probation, and ordered him to pay restitution of US $885,000. In separate proceedings in 2004, the BCSC found that Durante breached the market manipulation and fraud prohibitions in the Act.

The Thompsons, in their roles as senior officers of Union, failed in their duty as gatekeepers to the securities market because they did not design, establish, implement, or supervise a compliance regime appropriate to Union's business.

In settlements, John, Rex and Norman Thompson agreed to pay $250,000, $200,000 and $175,000. They can act as directors or officers of a registered firm only if Union passes annual audits of its compliance and supervision practices by an independent accounting firm for four successive years. The BCSC permanently banned Koenig from the BC capital markets.

HEARINGS

Paul Robert Maudsley and Shaylor Management Ltd.

Maudsley was a mutual fund salesperson based in White Rock, BC from 1996 to 2003. He and his company Shaylor Management Ltd. committed fraud under the *Securities Act* when he convinced 23 clients to redeem $1.6 million in mutual fund holdings to invest in other securities. Maudsley did not invest any of the money. Instead, he took the clients' money to fund his personal and lifestyle expenses, including substance abuse.

Maudsley failed to deal fairly, honestly and in good faith with his clients. Nearly half were over 70 years old and three had a physical or mental disability. The mutual fund dealer that Maudsley worked for has compensated the victims.

The Commission panel ordered Maudsley to pay a $250,000 administrative penalty and $60,000 in costs. The panel also ordered Shaylor to pay an administrative penalty of $500,000 and costs as well. The Commission panel permanently banned Maudsley from trading securities, being a director or officer, or engaging in investor relations, cease-traded Shaylor's securities, and banned Shaylor from trading securities.

Nano World Projects Corporation and Robert Papalia

Papalia was a director and chairman of Nano World Projects and, from December 2000, its chief executive officer. Nano World's business was developing and selling nanotechnology. The Delaware-incorporated company had a BC business and mailing address and maintained a corporate office in Vancouver with support staff. Its shares were quoted on the OTCBB until Nano World was de-listed in April 2001 for failing to file mandatory reports.

Papalia and Nano World committed fraud when, between September 2000 and January 2001, Papalia issued seven news releases on behalf of the company that contained false and misleading information. The news releases contained false statements or omitted important facts about financing deals or financial backing, business partnerships, or contract contingencies, and Nano World's poor financial condition. Papalia reviewed and approved the issue of each of the seven news releases and also directed or was fully involved in all the negotiations referred to in the releases.

In 2004, a US Federal District Court in Seattle found that Papalia committed securities fraud by approving the issue of four of the seven Nano World news releases. The court ordered him to pay a penalty of US $33,000 and permanently prohibited him being a director or officer of certain issuers.

Taking into account the fine imposed by the US court, the Commission panel ordered Papalia to pay an administrative penalty of $75,000. The panel also prohibited him from being a director or officer or engaging in investor relations activities for at least 25 years. The orders remain outstanding until Papalia pays the full penalty.

Glenn Anthony Rosen, Sniper Sports Ltd., Statik Sports Inc., and 592087 BC Ltd.

Rosen illegally sold securities, and lied to and defrauded investors, in three separate schemes. In the first two schemes, Rosen victimized at least 47 investors when he lied and committed fraud in raising more than $300,000 from them. He used two companies, Sniper Sports Ltd. (supposedly in the business of manufacturing and selling hockey sticks) and a numbered company (supposedly to manufacture, licence and market a car detailing product called "Tire Tux"), to defraud the investors. In the third scheme, Rosen used Statik Sports Inc. (another company supposedly in the business of manufacturing and selling hockey sticks), to perpetrate a fraud on the investors. This time investors lost $128,700.

In January 2005, the BC Supreme Court convicted Rosen of theft after he failed to invest money given to him but instead used the money to buy products used in the Tire Tux fraud.

In two decisions, the Commission panel ordered Rosen to pay penalties of $375,000 and costs. The panel permanently prohibited him from buying and selling securities, being a director or officer, and engaging in investor relations activities. The panel cease traded the securities of all three companies.

Corporate Express Inc., Fortress International Ltd., Great American Gold Ltd., John Thomas McCarthy, and Cameron Willard McEwen

Corporate Express, Fortress International, Great American Gold, John Thomas McCarthy, and Cameron Willard McEwen, violated the *Securities Act* by selling securities without registration or a prospectus and by trading securities while prohibited under temporary orders. Corporate Express also made statements, contrary to the Act, about the future price of an investment – offering returns of 50, 175, and 400 per cent – in promoting the purchase of its securities. McCarthy and McEwen also breached temporary orders by engaging in investor relations activities.

The Commission panel permanently cease traded the securities of Corporate Express, Fortress and Great American and permanently banned them from distributing securities. The commissioners banned McCarthy and McEwen from buying and selling securities for 10 years. During that period, they cannot be directors or officers of any issuer or engage in investor relations activities. The respondents have sought leave to appeal the panel's decision to the BC Court of Appeal.

H&R Enterprise Inc., Michael Lee Mitton, David Scott Heredia, and Jerome Rosen

Mitton violated the *Securities Act* in four investment schemes he ran beginning in December 1995.

In three of the schemes, Mitton, directly or through nominees, defrauded investment dealers. Mitton and his nominees did not tell dealers that they would pay for their transactions only if they were able to undertake a profitable offsetting transaction. In fact, Mitton instructed his nominees to prevent the dealers from discovering this arrangement for as long as possible.

Mitton's fourth scheme was a textbook market manipulation. He used a network of market makers and promoters across North America, including Heredia and Rosen, to manipulate the trading of shares of H & R Enterprises, a shell company quoted on the OTCBB. As part of the manipulation, H & R issued promotional news releases about business ventures and a private placement that never occurred. In all, Mitton gave his market makers, promoters, and nominees three million shares to trade under his direction.

The Commission panel noted that Mitton conducted this illegal business despite a 1988 ban that prohibited him from participating in the capital markets for 20 years. The panel also found that Mitton had 103 criminal convictions in Canada and an outstanding indictment for securities fraud in the US.

In December 2000, the BC Supreme Court convicted Mitton of securities fraud and sentenced him to four years in jail. In January 2004, Heredia and Rosen pleaded guilty in the US to securities fraud for the manipulation. Before the hearing, the BCSC entered into settlements with six other participants in the scheme.

The panel ordered Mitton to pay a $250,000 administrative penalty, permanently banned him, Heredia, and Rosen from the capital markets, and cease traded H & R shares.

Fatir Hussain Siddiqi

Fatir Hussain Siddiqi, of London, England, breached the *Securities Act* when he used insider information to trade shares of AIS Resources Ltd. and by manipulating the market in AIS stock. He also violated securities laws when he made undeclared short sales of AIS stock, distributed shares of AIS from a control position without giving the required notice, and acquired a controlling interest in AIS without filing the required news release.

Siddiqi was in the business of helping public companies raise capital. His breaches occurred in September and October 2000 through his involvement with AIS, a company listed on the Canadian Venture Exchange (now the TSX Venture Exchange).

The Commission panel ordered Siddiqi to pay a $60,000 administrative penalty and banned him from buying and selling securities, being a director or officer, and engaging in investor relations activities for at least six years. The orders remain outstanding until he pays the administrative penalty.

Carey Brian Dennis

Dennis, of Salmon Arm, BC, was registered as a mutual fund salesman from September 1994 to July 1997. He worked at Mutual Investco Inc., a subsidiary of Mutual Life (now Clarica Life Assurance Company). From 1994 to 1997, Dennis intentionally misled seven clients about what he had done with their investments. He told the clients he invested their money in a mortgage or other mutual funds with Mutual Life. In fact, he used their money to invest in mortgages or a mortgage pool in his own name or for other business or personal purposes. The clients lost $250,000. The Commission panel found that Dennis breached the *Securities Act* in committing fraud and failing to deal fairly, honestly, and in good faith with his clients.

In October 2003, the BC Supreme Court convicted Dennis of fraud and theft, and later sentenced him to two years and three months in prison and ordered him to make restitution. The Commission panel adopted the court's findings of fact and law.

The panel ordered Dennis to pay a $200,000 penalty and $12,000 in costs and banned him from the securities markets, being a director or officer and engaging in investor relations activities for 30 years.

HIGHLIGHTS OF COURT CASES

Tylor Cho

In November 2004, the Commission issued an order authorizing staff to investigate certain securities trading and advising activities. Staff issued a summons and demand for production requiring Tylor Cho to attend an interview and produce records by December 2004. Cho failed to attend the interview and produce the records. In January 2005, the BC Supreme Court ordered Cho to attend an interview and produce the records. Cho again failed to do so.

In March 2005, the Court found Cho in contempt of court. In April 2005, the Court ordered that he be committed to prison for one month for his contempt. Sheriffs apprehended Cho and he spent approximately 20 days in prison before agreeing to attend an interview.

Michael Lee Seifert

On December 9, 1999, the Commission and Seifert entered into a settlement. Seifert agreed to pay the Commission $450,000, but paid only $225,000. The Commission filed an action in the BC Supreme Court for the balance and Seifert counterclaimed for the amount he paid. The parties put a series of questions to the court. On February 3, 2006, the court answered in favor of the BCSC on the grounds that the executive director has the jurisdiction to resolve the allegations against Seifert. The executive director can do this without a hearing by entering into a settlement, which requires Seifert to pay money to the Commission. That money can be greater than the Commission could order as a penalty following a hearing and the amount allocated to costs can be greater than the costs the Commission might order following a hearing. Seifert is appealing.

HEARINGS & REVIEWS

Connor Financial Corp. and Joel Gerrett Connor

On January 18, 2002, the BCSC's director of capital markets imposed conditions on the registration of Connor Financial, a mutual fund dealer, and Connor, its owner, to prevent them from making loans to Connor Financial clients. The director allowed existing loans to remain in place. The director imposed the condition because Connor Financial was required to apply for membership in the Mutual Fund Dealers Association, and the MFDA generally prohibits loans by dealers to clients. The director also forbade Connor Financial from including receivables related to the loans as current assets in calculating its working capital for regulatory purposes. Connor and Connor Financial applied for a hearing to review the director's decision.

The Commission panel upheld the director's prohibition on new loans until the MFDA decides on Connor Financial's membership application, including whether to grant an exemption from the loan prohibition. However, they allowed Connor Financial to include the loans receivable when calculating its working capital.

Global Securities Corp. and TSX Venture Exchange

A disciplinary hearing panel of the Canadian Venture Exchange (now the TSX Venture Exchange) dismissed an allegation that Global Securities did not diligently supervise trading in a client's options account. Both the exchange and the executive director applied for a hearing to review the decision. In a preliminary application, Global argued that the exchange has no standing to apply for a hearing and that its role at any hearing should be limited.

The Commission panel denied Global's application. Global obtained leave to appeal the panel decision from the BC Court of Appeal, which heard the appeal in May 2006. In March 2006, the appeal court granted intervener status to the IDA and Market Regulation Services. The Court's decision on the appeal is pending.

John Frederick Brighten

In August 2004, a Pacific District Council panel of the IDA decided that Alan Bruce Alexander Thomson had contravened IDA requirements while he was a registered representative at IPO Capital Corp. in Vancouver. At the time, Brighten was the senior manager responsible for compliance at IPO.

That month another IDA panel, which included a member from the Thomson panel, rejected a settlement between Brighten and IDA enforcement staff. The settlement related to Brighten's role in the supervision of Thomson. Brighten asked for a hearing to review the IDA panel's decision.

The Commission panel found that the participation of Brighten panel member on the Thomson panel raised a reasonable apprehension of bias. The Thomson panel had made a finding that was critical of Brighten. The Commission panel directed that the settlement go to a second hearing before an IDA panel with new members.

Financial Report

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS FOR THE YEAR ENDED MARCH 31, 2006

This discussion and analysis of financial position and results of operations of the British Columbia Securities Commission (BCSC) is prepared as at April 26, 2006, and should be read in conjunction with our audited financial statements and related notes for the year ended March 31, 2006.

All financial information provided in this report is prepared in accordance with Canadian generally accepted accounting principles and is in Canadian dollars.

OVERVIEW

Fiscal 2006 operating results (excluding education reserve transactions)

Operations generated a $1.3 million surplus, $1.8 million ahead of budget and $0.7 million higher than fiscal 2005.

Revenues were $2.3 million higher than expected and $1.4 million higher than fiscal 2005, mostly because of strong exempt market activity and changes to prospectus offering rules that increased annual information form filing volumes.

Expenses were $0.7 million higher than expected and $0.3 million higher than fiscal 2005. Lower external communication costs only partly offset higher staff and information systems costs and a write-off of impaired assets.

- Staffing costs were higher than expected, partly because we increased some positions' salaries to remain competitive. Severance was also higher than expected, and we experienced more maternity and other leaves but fewer vacancies.
- Information systems costs increased mostly because the previous fiscal year included a recovery of NRD development costs.
- Administration expense was higher than expected because we wrote off leasehold and furniture assets impaired by the sublease of a portion of our rented space.
- External communication costs decreased because fiscal 2005 included work to launch the 2004 Securities Act (implementation subsequently deferred), and because we canceled the fiscal 2006 Capital Ideas conference.

Financial structure and history

We try to operate at a break-even level over the business cycle. This is challenging because most of our costs are fixed, but our revenues fluctuate in proportion to market activity. Securities market participants fund our operations through fees they pay to make *Securities Act* filings. Salaries, benefits, and occupancy costs make up about 80% of our operating expenses. As a BC government agency, we are exempt from income taxes and the GST.

Strong market activity during the late 1990s resulted in higher than necessary fee revenues and an accumulating surplus. From our incorporation on April 1, 1995 to March 31, 2001 we accumulated surpluses totaling $25.1 million, net of a $12 million transfer to the Province.

To address the imbalance, we eliminated or reduced 14 fees, totaling approximately $4 million of annual revenue, on January 1, 2001. To return about $12 million of the accumulated surplus to market participants, we also temporarily reduced fees in January 2002 for one year. We allocated $12 million of the remaining surplus to a fee stabilization reserve so that temporary reductions in revenue would not immediately impair our ability to operate, or require immediate fee increases.

Temporary fee reductions and lower market activity significantly reduced fiscal 2003 and 2004 revenues. Market activity increased in fiscal 2005, and has since been strong. The following table summarizes our actual and expected results of operations and financial position by fiscal year.

A firm registration fee holiday for MFDA members, with a $0.3 million / year impact, ends in fiscal 2010.

	PAST				PRESENT				FUTURE
	2002	2003	2004	2005	2006				2007
(MILLIONS)	Audited	Audited	Audited	Audited	Audited	vs 2005	Budget	vs budget	Budget
OPERATIONS									
Revenues									
Filing fees									
Prospectus and other distributions	12.7	8.6	11.6	13.3	14.7	1.4	12.4	2.3	14.1
Registration	7.3	6.2	4.9	8.1	8.4	0.3	7.9	0.5	8.6
Financial Filings	3.6	1.8	4.5	4.7	4.6	(0.1)	5.2	(0.6)	4.4
Other fees	0.7	0.6	0.6	0.5	0.5	–	0.4	0.1	0.5
	24.3	17.2	21.6	26.6	28.2	1.6	25.9	2.3	27.6
Other revenues									
Enforcement cost recoveries	0.5	0.1	0.1	0.3	0.1	(0.2)	0.2	(0.1)	0.2
Investment income	1.3	0.8	0.7	0.4	0.4	–	0.5	(0.1)	0.7
	26.1	18.1	22.4	27.3	28.7	1.4	26.6	2.1	28.5
Expenses									
Salaries and benefits	18.9	19.5	19.5	19.7	20.2	0.5	19.8	0.4	21.0
Other operating expenses	7.5	8.2	7.6	7.0	7.2	0.2	7.4	(0.2)	7.4
	26.4	27.7	27.1	26.7	27.4	0.7	27.2	2.3	28.4
Operating (deficit) / surplus for the year	**(0.3)**	**(9.6)**	**(4.7)**	**0.6**	**1.3**	**0.7**	**(0.6)**	**1.9**	**0.1**
EDUCATION RESERVE									
Education revenues									
Penalties and designated amounts	0.9	0.3	0.4	0.9	0.7	(0.2)	0.3	0.4	0.5
Investment income	0.1	0.1	0.1	0.1	0.1	–	0.1	–	0.1
	1.0	0.4	0.5	1.0	0.8	(0.2)	0.4	0.4	0.6
Education reserve disbursements	0.3	0.2	0.8	2.1	1.2	(0.9)	1.3	(0.1)	1.2
Education reserve surplus / (deficit) for the year	**0.7**	**0.2**	**(0.3)**	**(1.1)**	**(0.4)**	**0.7**	**(0.9)**	**0.5**	**(0.6)**
Consolidated surplus / (deficit)	**0.4**	**(9.4)**	**(5.0)**	**(0.5)**	**0.9**	**1.4**	**(1.5)**	**2.4**	**(0.5)**
Accumulated surpluses									
General (including contributed)	14.3	4.6	–	0.7	1.7	1.0	0.1	1.6	0.9
Fee stabilization reserve	12.0	12.0	11.8	11.8	12.0	0.2	11.8	0.2	13.0
Education reserve	3.9	4.2	3.9	2.8	2.4	(0.4)	1.9	0.5	1.9
	30.2	20.8	15.7	15.3	16.1	0.8	13.8	2.3	15.8
Supplementary information									
Fee revenue (before temp. reductions)	25.4	23.9	24.9	26.9	28.5	1.6	26.2	2.3	27.9
Fee revenue growth rate	-10%	-6%	4%	8%	6%		-3%		-2%
Average FTEs	208	206	204	195	191	(4)	192	(1)	190
Operating expense growth	11%	5%	-2%	-1%	3%		2%		4%
Capital Additions	1.5	0.8	0.8	0.4	0.3	-0.1	0.4	-0.1	0.5

The following revenue and expense sections explain our operating funding and expenses and actual versus budget and actual versus fiscal 2005 variances. We report our Education Fund activity separately, beginning on page 52.

REVENUES

Our operating revenues consist of:

- Fee revenues – filing, registration, and application fees paid by securities market participants
- Enforcement revenues – hearing cost recoveries and amounts designated under settlements as cost recoveries
- Investment portfolio income

FEE REVENUES

Almost all of our operational funding comes from filing fees paid by market participants. We collect:

		% OF FEE TOTAL	
CATEGORY	SOURCE	FISCAL 2006	FISCAL 2005
Distribution fees	Paid by securities issuers when they file disclosure documents	52.3%	50.0%
Registration fees	Paid by firms and individuals to register with us to sell or advise on securities	29.6%	30.5%
Financial filing fees	Paid by public companies when they file annual and quarterly financial statements	16.4%	17.6%
Other fees	Paid by market participants, primarily to request exemptions from *Securities Act* requirements	1.8%	1.9%

Distribution fee revenues vary depending on the number and sizes of offerings completed in each year and are higher during strong markets. The remaining fee categories have low volatilities.

We are most dependent on distribution fees paid by mutual funds to file prospectuses and financial statements with us. Mutual funds contributed about $10.5 million, or about 37% (fiscal 2005, $10.4 million, or 39%) of period fee revenue.

ENFORCEMENT REVENUES

We recognize hearing and enforcement cost recoveries in operating revenue when paid.

Enforcement cost recoveries are unpredictable. Revenues depend on the timing of enforcement actions completed during the period and on our ability to collect assessed amounts. Collecting enforcement cost recoveries is difficult because respondents often have limited assets, poor credit or have left British Columbia.

Since our incorporation on April 1, 1995, we have collected $10.4 million (45%) of $23.3 million sanctioned. We pursue unpaid amounts, which totaled $12.9 million as at March 31, 2006 (March 31, 2005, $10.5 million), vigorously and indefinitely.

Current year settlements allocated a smaller portion of the sanction to investigation costs, so cost recovery revenue fell by $0.2 million.

INVESTMENT INCOME

Our portfolio generates modest returns because we invest conservatively. Investment income increased about 10% to $0.5 million (fiscal 2005, $0.5 million). Our average portfolio balance increased, but return remained about 2.75%. Interest rate increases and portfolio rebalancing triggered by withdrawals both reduced returns.

FISCAL	INVESTMENT INCOME ('000S)	AVERAGE PORTFOLIO BALANCE	RETURN
2006	507.9	18,360.6	2.8%
2005	450.7	16,781.2	2.7%

Significant operating revenue variances

Revenues were $2.3 million higher than expected and $1.4 million higher than fiscal 2005, mostly because of strong exempt market activity and changes to prospectus offering rules that increased annual information form filing volumes. Most significantly:

VARIANCE	vs. budget	vs. 2005
We expected non-prospectus[1] (exempt market) distribution fees to decrease $0.4 million to the historical average of $1.5 million after experiencing higher than average activity in fiscal 2005. Fees actually increased $1.0 million (55%) to $2.9 million. Strong market conditions and reduced hold period requirements induced filers to raise more capital through the exempt market.	+ $1.4 million	+$1.0 million
We expected annual information form[2] (AIF) fees to remain unchanged. Fees actually increased $0.4 million (27%) because some filers adopted a new rule enabling them to complete prospectus offerings more quickly and cheaply if they have a current AIF.	+ $0.4 million	+$0.4 million
We expected percentage of proceeds[3] fees to drop $0.3 million because fiscal 2005 included a one-time $0.7 million gain from mutual funds that miscalculated prior year fees due. Excluding the gain, we expected increasing mutual fund gross sales to increase percent of proceeds fees by $0.4 million, or 10%. Percentage of proceeds fees actually increased $0.7 million, or 16%.	+ $0.3 million	Nil
We set our fiscal 2006 registration revenue budget using incomplete registration statistics, so we expected registration[4] fees to drop $0.3 million. Fees actually increased $0.2 million (3%). We have since fixed the report error.	+ $0.5 million	+$0.2 million

[1] Companies are normally required to prepare a prospectus before raising money from the public. A prospectus gives details of the operations, financial status and management of the company. Prospectus exemptions allow companies to sell securities without a prospectus when other factors (like relationship or financial sophistication) ensure investors have access to all information about the proposed transaction that could affect their purchase decision.
[2] An AIF gives details of the operations, financial status and management of the company.
[3] When sales under a prospectus exceed $25 million, a fee, called a percentage of proceeds fee, may be payable.
[4] Firms and individuals that sell or advise on securities must register with us every year.

VARIANCE CONTINUED	vs. budget	vs. 2005
We expected a one-time $0.6 million increase in financial statement filing fees from shortened mutual fund financial statement filing deadlines under a new rule. Transitional provisions actually moved most of the timing difference into fiscal 2007.	- $0.6 million	Nil
We expected enforcement cost recoveries to decline $0.1 million to the five-year average. Recoveries actually declined $0.2 million because we allocated less of settlement monetary undertakings to cost recovery.	- $0.1 million	- $0.2 million
Other small variances, net	+ $0.2 million	
Total revenue variances, 8% of budget	+ $2.1 million	+ $1.4 million

OPERATING EXPENSES

We are committed to managing our expenses so they do not exceed expected revenue over the business cycle. We do this by:

- Preparing an annual budget approved by the Commission
- Reporting actual versus budget experience to management every month, and to the Commission every quarter
- Requiring Commission approval of significant expenses
- Continually improving the efficiency of our processes

Four-year average operating expense growth was 1%.

Salaries and benefits

We averaged the equivalent of 191 full-time staff during the year (fiscal 2005, 195). Staffing costs are almost 75% of our operating expenses, and annual, performance-based salary increases drive most of our non-project expense growth. We compete for professional staff with law and accounting firms, the securities industry, and other regulators. Like most of our competitors, we offer a compensation package that includes performance-based incentives. To remain competitive, we conduct annual salary surveys and make adjustments as appropriate.

We focus staff effort (with overhead allocated proportionately) on our strategic goals:

AREA	FISCAL 2006	FISCAL 2005
Goal 3: Act decisively against misconduct	44%	47%
Goals 1 & 2: Promote a culture of compliance and Lean policy making – issuers	28%	31%
Goals 1 & 2: Promote a culture of compliance and Lean policy making – registrants	20%	18%
Goal 4: Educate investors and industry	8%	5%

REMUNERATION SUMMARY:

	FISCAL 2006				
POSITION	BASE SALARY[1]	OTHER CASH BENEFITS[2]	OTHER NON-CASH BENEFITS[3]	TOTAL	TOTAL FISCAL 2005
Chair	$ 323,939	$ 151,238	$ 41,203	$ 516,380	$ 508,596
Vice Chair	$ 248,608	$ 11,485	$ 32,430	$ 292,523	$ 344,491
Vice Chair	$ 274,500	$ –	$ 20,647	$ 295,147	$ 402,981
Full-Time Commissioner[4]	$ 210,043	$ 35,611	$ 26,843	$ 272,497	$ 157,591
Six Part-Time Commissioners	$ 257,800	$ –	$ 10,375	$ 268,175	$ 254,793
Executive Director	$ 224,474	$ 69,305	$ 34,466	$ 328,245	$ 327,995

Professional services

We contract third party professional services when it is not cost-effective, or when we do not have the skills, to perform the work ourselves. We use a legislative drafter seconded from the Attorney General and sometimes engage outside legal counsel to represent us in lawsuits. We contribute to national project costs. Other significant components of professional service expense are transcription, business continuity facility stand-by charges, internal, and external audit costs.

Occupancy

We rent office space under a lease that ends on November 30, 2011. During fiscal 2006, we reorganized several departments, and subleased about two thirds of the vacant space for 61% of our cost for the entire area. Our efforts to sublease the remaining space continue.

Information management

We spend significant amounts on information systems and management annually to continually improve market participants' access to our services, the information we maintain, the speed with which we deliver, and the quality of our regulatory duties. Information management has three main components:

- Software licensing and maintenance fees – most significantly, for office productivity, workflow, and document management applications
- Electronic information services and hardcopy material costs
- Physical record scanning and storage costs

[1] Base salary includes regular base pay and honoraria.
[2] Other cash benefits include performance-based incentives and transportation allowances.
[3] Other non-cash benefits include amounts we paid on behalf of these members and employees and include pension, long-term disability, health and dental plan, and employment insurance premiums, parking, and professional membership fees.
[4] Commenced employment August 16, 2004.
The previous Executive Director retired October 1, 2004. His remuneration is included in 2005.

Administration

Administration expense includes a one-time $0.3 million write-off of leasehold and built-in furniture assets related to the space we sublet at a loss. The other significant components of administration expense are stationary and office supplies, copier leases, meeting expenses, hearing witness expenses, payroll processing, and bank service charges.

External communications

The significant components of external communications expense are:

- Design, writing, and printing costs, including our share of BC Gazette production costs
- Third-party meeting costs
- Postage and courier
- Advertising, primarily recruitment advertising costs

Significant fiscal 2006 communication activities included delivering investor and industry education seminars, developing new website content, and producing our annual report.

Significant operating expense variances

Expenses were $0.7 million higher than expected and $0.3 million higher than fiscal 2005. Lower external communication costs only partly offset higher staff and information systems costs and a write-off of impaired assets. Most significantly:

VARIANCE	vs. budget	vs. 2005
We expected process improvements that reduced staff size to offset merit-based salary and inflationary benefit cost increases. Actual salaries and benefits expense increased $0.5 million. To remain competitive, we increased some positions' salaries, which cost $0.2 million. Severance was $0.1 million higher than expected because we terminated two employees. Leave payments were $0.1 million higher than expected because more staff took maternity leaves. Base salaries were $0.2 million higher because of fewer than expected turnover vacancies, more expensive replacement staff, and one unplanned position. A $0.1 million over-accrual for fiscal 2005 incentives only partly offset the cost increases.	+$0.5 million	+$0.5 million
Information systems and management expenses increased $0.4 million. The prior fiscal year included a $0.2 million recovery of NRD development costs from another regulator. We spent $0.1 million this year redeveloping the National CTO database. Two new annual software license charges and the recognition of data line charges here versus in telecommunications last year increased costs $0.1 million.	Nil	+$0.4 million
During the year, we subleased some of our rented space at a loss. We wrote off, as an administration expense, the net book value of related leasehold and built-in furniture assets, totaling $0.3 million.	+$0.3 million	+$0.3 million

VARIANCE	vs. budget	vs. 2005
We expected communications and education expense to drop $0.3 million because in fiscal 2005 we prepared for the launch of a new, ultimately deferred, *Securities Act*, costing $0.2 million, and hosted COSRA and CSA conferences, costing $0.1 million. Actual communications and education expenses dropped a further $0.1 million because we cancelled the fiscal 2006 Capital Ideas conference and published fewer registrant and issuer publications.	- $0.1 million	- $0.4 million
We expected CSA projects to be $0.2 million more expensive.	- $0.2 million	Nil
Other small variances, net	- $0.2 million	- $0.1 million
Total expense variances, 1.2% of budget	+ $0.3 million	+ $0.7 million

EDUCATION RESERVE

We appropriate receipts from administrative penalties and settlement payments in excess of our costs of investigation to our Education Reserve. We use education reserve funds only to educate securities market participants and members of the public about investing, financial matters or the operation or regulation of securities markets.

Education reserve disbursements decreased by $0.9 million to $1.2 million (fiscal 2005, $2.1 million). Most significantly, we spent $0.5 million maintaining curriculum materials and web resources for the financial and investing component of a course for grade 10 students. Other significant disbursements included:

- $0.1 million to Junior Achievement of BC to deliver the *Dollars and Sense* program to grade eight students
- $0.1 million to develop labour union partners to deliver the *Investigate Before You Invest* program to pre-retirement union members
- $0.1 million to deliver the *Investigate Before You Invest* program to religious groups, which face a high risk of affinity fraud
- $0.1 million to develop a program on responsible investment practices for pension plan trustees

We have earmarked $0.4 million of the Education Reserve to complete current projects.

(THOUSANDS)	FISCAL 2006	FISCAL 2005	CHANGE $	CHANGE %
Opening balance	2,841	3,919	(1,078)	-28%
Add:				
Penalties and designated amounts	711	908	(197)	-22%
Investment income allocation	73	109	(37)	-34%
Less:				
Disbursements	1,198	2,096	(898)	-43%
Closing balance	2,427	2,841	(414)	-15%
Less:				
Commitments outstanding	392	361	31	8%
Balance, net of commitments	2,035	2,480	(445)	-18%

FINANCIAL POSITION AND LIQUIDITY

OPERATING CASH FLOW AND INVESTING ACTIVITIES

Cash and investments (including the fee stabilization reserve, but excluding amounts reserved for education) totaled $18.7 million at year-end (fiscal 2005, $16 million). The increase is because revenues increased more than expenses. During the year, we invested $0.3 million (fiscal 2005, $0.4 million) in capital assets, primarily information technology.

Our working capital deficit is $2.1 million (fiscal 2005, $4.3 million), but we have sufficient liquidity and capital resources. Most of the deficit relates to our deferred registration revenue, a non-cash item. In addition, most employee leaves will be taken, not paid out. We can also draw on our $12 million fee stabilization reserve if necessary.

ASSETS

Accounts and advances receivable remained at $0.2 million, but the composition changed. The most significant component of receivables at year-end was a $0.1 million rent overpayment. We recovered the overpayment in April 2006.

Prepaid expenses and deposits remained $0.5 million. The most significant components of prepaid expenses are unchanged from fiscal 2005 and are $0.2 million prepaid IDA registration processing fees and $0.1 million prepaid rent.

LIABILITIES

Accounts payable and accrued liabilities increased slightly to $0.5 million (fiscal 2005, $0.4 million). The most significant payable is $50,000 to reimburse the Attorney General for the salary and benefit costs of a seconded legislative drafter.

Deferred revenue is calendar year registrations received in advance.

Accrued salaries remained at $2.5 million. The most significant components of accrued salaries are $1.9 million for fiscal 2006 incentives, $0.3 million to accrue the five days since our last payroll before year-end, and $0.2 million for committed severance payments.

Employee leave liability, representing accrued employee vacation and other leave time, remained at $0.7 million.

QUARTERLY FINANCIAL INFORMATION

Because of prospectus and other statutory filing patterns, we normally generate surpluses from operations (i.e. excluding education fund transactions) in the first and third quarters and deficits in the remaining quarters.

(in'000s)	FISCAL 2006				FISCAL 2005			
OPERATING	**31 MAR 06**	**31 DEC 05**	**30 SEP 05**	**30 JUN 05**	**30 MAR 05**	**31 DEC 04**	**30 SEP 04**	**30 JUN 04**
Revenues	$ 6,753	$ 6,875	$ 5,511	$ 9,533	$ 6,400	$ 6,553	$ 6,345	$ 8,016
Expenses	7,006	6,560	6,908	6,939	7,096	6,415	6,708	6,451
Surplus (Deficit)	$ (253)	$ 315	$ (1,397)	$ 2,594	$ (696)	$ 139	$ (363)	$ 1,565
EDUCATION								
Revenues	$ 126	$ 221	$ 320	$ 116	$ 142	$ 314	$ 345	$ 216
Disbursements	(214)	(177)	(552)	(255)	(327)	(1,156)	(377)	(235)
Surplus (Deficit)	$ (88)	$ 44	$ (232)	$ (139)	$ (185)	$ (842)	$ (32)	$ (19)
CONSOLIDATED								
Surplus (Deficit)	$ (341)	$ 359	$ (1,629)	$ 2,455	$ (881)	$ (703)	$ (395)	$ 1,546

RISKS AND OPPORTUNITIES

FEE REVENUE

Market activity has increased since the fiscal 2002 through 2004 years when lower market activity, and our planned temporary fee reductions, reduced our fee revenues. We will review our fee structure and may propose changes in fiscal 2007 to ensure we break even in future years.

SECURITIES REGULATORY REFORM

We have been supporting government's work to implement the regulatory reforms outlined in the September 30, 2004 *Memorandum of Understanding Regarding Securities Regulation* (Passport MOU), signed by most of Canada's ministers responsible for securities regulation. The Passport MOU proposes a single window access to capital markets in participating provinces and territories, harmonized and streamlined legislation, and a review of the regulatory fees charged in the context of the passport system. We adopted MI 11-101 *Principal Regulator System* to implement the first phase of the passport initiative effective September 19, 2005. The legislature adopted *Securities Act* amendments to support phase two, which received Royal Assent on May 18, 2006. The first phase did not, and the second phase is not expected to, materially affect our operations.

While the Passport MOU may ultimately change what we do and how we fund our operations, we have forecast no impact on our revenues and expenses because we expect any changes to have no net impact on our bottom line.

NATIONAL ELECTRONIC FILING SYSTEMS

About 90% of our fee revenue is collected through the SEDAR and NRD electronic filing systems. Under various agreements with the CSA, CDS Inc. operates the SEDAR, SEDI, and NRD electronic filing systems. Should CDS become unable or unwilling to continue to operate them, the CSA would have to contract with another party.

CDS operates the SEDAR electronic filing and payment system on behalf of CSA under an August 1, 2004 agreement with the CSA Principal Administrators, Alberta Securities Commission, British Columbia Securities Commission, Ontario Securities Commission, and L'autorite des Marches Financiers. Under the agreement:

- The CSA Principal Administrators must pay CDS Inc. if SEDAR system operating costs exceed revenues (a "shortfall"). Our portion of that guarantee is limited to 15.4% of any shortfall. The chance of an operating loss is low, however, because SEDAR typically generates positive operating results. Revenues and expenses do not vary much from year to year and the CSA participate in setting the system's annual operating budget.
- CDS must pay SEDAR revenues in excess of system operating costs (a "surplus") to the CSA Principal Administrators. Any surplus is not divisible; the CSA Principal Administrators own it as a group.

CDS has paid $8.8 million to the OSC, in trust, representing surpluses generated by SEDAR during the November 1, 2002 to October 31, 2005 period. The CSA Principal Administrators have agreed that these funds will be used only for the benefit of national filing system users through system enhancements or usage fee adjustments.

CONTRACTUAL OBLIGATIONS

Our contractual obligations as at March 31, 2006 are:

(MILLIONS)	TOTAL	< 1 YEAR	2–3 YEARS	4–5 YEARS	> 5 YEARS
Rent and operating costs (net of sublease recoveries)	11.2	1.9	3.9	4.0	1.4
Disaster recovery services	0.2	0.1	0.05	–	–
	11.4	2.0	4.0	4.0	1.4

CRITICAL ACCOUNTING ESTIMATES

Management must make estimates and assumptions when preparing the financial statements. Management makes those assumptions based on current conditions and experience, and believes that they are reasonable. However, actual results may differ from management's estimates. In our financial statements, management has estimated the portion of accounts and advances receivable we will receive, the useful lives of our capital assets, and the value of employee leave liability.

ACCOUNTS AND ADVANCES RECEIVABLE

We accrue amounts due when they meet generally accepted revenue recognition criteria. Based on experience, the collection of enforcement revenues is not reasonably assured and the realizable amount not reasonably estimable until we receive payment.

CAPITAL ASSETS

We capitalize goods and services when their cost is greater than $2,000 and their benefit to us extends beyond the current fiscal year. We amortize the cost of our capital assets over their expected useful lives based on our experience with similar assets. Our capital assets consist primarily of leasehold improvements and information technology. New information could reduce or eliminate an asset's value or expected useful life.

EMPLOYEE LEAVE LIABILITY

Our employees accrue vacation and other leave entitlements based on their years of service. We have estimated the value of employee leaves not yet taken based on our employee records and attributed benefit costs to those leaves using our experience. The actual value of employee leaves taken will vary depending on their particular circumstances.

CHANGE IN ACCOUNTING POLICY

We adopted the *Comprehensive Income, Equity, Financial Instruments – recognition and measurement* and *Financial Instruments – disclosure and presentation* accounting standards, effective April 1, 2005. These new standards deal primarily with the valuation and disclosure of financial instruments. *Financial Instruments – recognition and measurement* requires that financial assets "held for trading," such as our short-term and designated investments, be measured at fair value. Related valuation gains and losses are recognized in net income in the periods in which they arise. Previously, we recognized unrealized losses immediately, but unrealized gains only on disposition. We recognized unrealized investment losses in the current and comparative periods, so adopting the new standards had no impact.

OUTLOOK FOR FISCAL 2007

We expect to generate a modest operating surplus again in fiscal 2007.

Fee revenues are budgeted to drop $0.6 million (2%) in fiscal 2007 because of the timing of distribution and financial statement filing volumes. However, those timing differences will now increase fiscal 2007 revenues because we delayed the filing deadline transition. We do not expect revenues to fall in fiscal 2007.

We expect expenses to increase $1.0 million (4%) in fiscal 2007. Most significantly:

- Salaries will increase $0.5 million because staff received merit increases averaging 3.2%.
- Benefit costs will increase $0.3 million because our pension contribution rates increased 25%.

We expect that these activities will result in us having a cash balance (including the fee stabilization reserve but excluding amounts reserved for education) at March 31, 2007 of $19.0 million, up $0.3 million from March 31, 2006.

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management of the British Columbia Securities Commission is responsible for ensuring that the financial statements and other financial information in this annual report are complete and accurate.

Management, consisting of the Executive Director and her senior staff, has prepared the financial statements according to accounting principles that are generally accepted in Canada. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgment. It is possible that circumstances will cause actual results to differ. Management does not believe it is likely that any differences will be material.

Financial information contained throughout this annual report, including the management discussion and analysis and the charts and figures in the body of the annual report, is consistent with these financial statements.

Management develops and maintains systems of control that give the Commission reasonable assurance that management has:

- operated within its authorized limits
- safeguarded assets
- kept complete and accurate financial records

The commissioners are responsible for establishing prudent rules of business and staff conduct. It is the Commission's policy to maintain the highest standards of ethics in all its activities. The Commission has created an employee conduct policy, including conflict of interest rules for employees and commissioners, to achieve those standards.

The commissioners are also responsible for ensuring that management fulfills its financial reporting and control responsibilities, and have appointed an independent audit committee to oversee the financial reporting process. The committee members are part-time commissioners who do not participate in the day-to-day operations of the Commission. The audit committee meets regularly throughout the year with management, the internal auditors and the external auditors to review the:

- financial statements
- adequacy of financial reporting, accounting systems and controls
- internal and external audit functions

The internal auditors are charged with the responsibility of reviewing and evaluating the adequacy of and compliance with the Commission's internal control standards. The internal auditors report the results of their reviews and make recommendations both to management and the audit committee. The external auditor's responsibility is to express an opinion on whether the financial statements, in all material respects, fairly present the Commission's financial position, results of operations and cash flows in accordance with accounting principles that are generally accepted in Canada. The internal and external auditors have full and open access to the audit committee, with and without the presence of management.

The audit committee has reviewed these financial statements and has recommended the commissioners approve them.

The British Columbia Lieutenant Governor in Council has appointed the Auditor General to be the independent auditor of the Commission. The Auditor General has examined the financial statements and his report follows.

Douglas M. Hyndman
Chair and Chief Executive Officer

Brenda M. Leong
Executive Director

REPORT OF THE AUDITOR GENERAL OF BRITISH COLUMBIA

To the Commissioners of the British Columbia Securities Commission, and
To the Attorney General, Province of British Columbia:

I have audited the balance sheet of the British Columbia Securities Commission as at March 31, 2006 and the statements of operations, of surpluses, and of cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the British Columbia Securities Commission as at March 31, 2006 and the results of its operations, its surpluses, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Wayne Strelioff

Wayne Strelioff, FCA
Auditor General

Victoria, British Columbia
April 26, 2006

financial statements

for the year ended March 31, 2006
audited

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BALANCE SHEET

AS OF MARCH 31, 2006 Audited	2006	2005
ASSETS		
Current assets:		
Cash and short term investments (note 5)	$ 6,695,621	$ 4,212,218
Accounts and advances receivable (note 6)	220,855	197,754
Prepaid expenses and deposits	$ 508,227	$ 416,964
	7,424,703	4,826,936
Investments held for designated purposes (note 5)	14,426,635	14,662,965
Capital assets (note 7)	3,942,872	5,108,593
	$ 25,794,210	$ 24,598,494
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$ 494,954	$ 394,264
Accrued salaries	2,524,500	2,522,726
Deferred revenue	5,725,755	5,478,760
Employee leave liability (note 8)	750,792	733,632
	9,496,001	9,129,382
Deferred rent	132,605	148,469
SURPLUSES		
General (note 9)	1,738,969	657,678
Fee stabilization reserve (note 10)	12,000,000	11,821,984
Education reserve (note 10)	2,426,635	2,840,981
	16,165,604	15,320,643
	$ 25,794,210	$ 24,598,494

Note 14 describes our commitments and contingent liabilities.

The accompanying notes are part of the financial statements.

Approved by the Commission:

Douglas M. Hyndman
Chair

John K. Graf
Member

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2006 Audited	2006	2005
REVENUES		
Fees		
Prospectus and other distributions	$ 14,726,105	$ 13,341,175
Registration	8,336,935	8,127,832
Financial filings	4,609,170	4,685,119
Exemptive orders and other	495,174	498,946
Administrative penalties and designated settlements (note 10(b))	710,811	907,931
Enforcement cost recoveries (note 11)	69,100	318,884
Investment income	507,961	450,702
	29,455,256	28,330,589
EXPENSES		
Salaries and benefits (note 13)	20,237,195	19,710,927
Occupancy	1,728,452	1,825,908
Professional services	1,703,402	1,708,503
Education reserve (note 10)	1,197,693	2,095,637
Depreciation	1,180,399	1,296,157
Information management	820,219	425,185
Administration (note 7(a))	617,381	257,890
Business travel	368,214	279,944
Staff training	378,596	321,074
External communications	232,565	657,074
Telecommunications	146,179	187,028
	28,610,295	28,765,327
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	$ 844,961	$ (434,738)

The accompanying notes are part of the financial statements.

STATEMENT OF SURPLUSES

FOR THE YEAR ENDED MARCH 31, 2006
Audited

	GENERAL (NOTE 9)	FEE STABILIZATION RESERVE (NOTE 10)	EDUCATION RESERVE (NOTE 10)	TOTAL
Balance, March 31, 2004	$ 13,959	$ 11,821,984	$ 3,919,438	$ 15,755,381
Excess of revenues over expenses	(434,738)	–	–	(434,738)
Appropriation during the year	1,078,457	–	(1,078,457)	–
Balance, March 31, 2005	$ 657,678	$ 11,821,984	$ 2,840,981	$ 15,320,643
Excess of revenues over expenses	844,961	–	–	844,961
Appropriation during the year	(236,330)	178,016	(414,346)	–
Balance, March 31, 2006	$ 1,738,969	$ 12,000,000	$ 2,426,635	$ 16,165,604

The accompanying notes are part of the financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2006 Audited	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from fees	$ 28,475,452	$ 26,609,666
Cash receipts from penalties and settlements	779,911	1,226,815
Cash paid to employees	(20,219,674)	(19,264,628)
Cash paid to suppliers and others	(7,012,535)	(8,147,920)
Investment income received	493,461	453,702
	2,516,615	877,635
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Paid for capital assets	(269,542)	(704,149)
Net decrease in cash and cash equivalents	2,247,073	173,486
Cash and cash equivalents, beginning of year	18,875,183	18,701,697
Cash and cash equivalents, end of year	$ 21,122,256	$ 18,875,183
Represented by:		
Cash and short term investments	$ 6,695,621	$ 4,212,218
Investments held for designated purposes	14,426,635	14,662,965
	$ 21,122,256	$ 18,875,183

The accompanying notes are part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2006
Audited

1. NATURE OF OPERATIONS

The British Columbia Securities Commission is a Crown corporation created by the Province of British Columbia on April 1, 1995. We regulate the trading of securities and exchange contracts in BC. As a government agency, we pay only those taxes paid by the provincial government.

2. BASIS OF PRESENTATION

We have reclassified some of the comparative figures so they conform to the presentation we have chosen for the current period.

3. SIGNIFICANT ACCOUNTING POLICIES

Management has prepared these financial statements according to accounting principles that are generally accepted in Canada. The important accounting policies used are:

a) Short term and designated investments

Under BC law, we must invest any money that we receive, but do not immediately need, in an investment pool that the British Columbia Investment Management Corporation, a BC government organization, administers. We buy units in pooled investment funds that invest primarily in:

- Canadian money market instruments maturing within 15 months, and
- Canadian bonds issued or guaranteed by the government of Canada or a provincial government and maturing within 10 years.

Any earnings from our investments are reinvested in the same fund and add to the carrying value of the units we own.

We value our short term investments and investments held for designated purposes at their market value. The fair value of short term investments and investments held for designated purposes is considered to be the market value. Fair value is the amount that would be agreed upon by two unrelated parties to a transaction who have full knowledge of all relevant facts and who are under no obligation to act.

b) Capital assets

We record our capital assets at cost. We depreciate them using the straight line method over their useful lives. We estimate the useful lives of our assets to be as follows:

- Information technology assets acquired before April 1, 2005 – three years
- Information technology assets acquired after March 31, 2005 – four years
- Leasehold improvements – the length of the remaining lease term or the length of the estimated useful life of each improvement, whichever time is shorter
- Office furniture and equipment – ten years

c) Revenue

We accrue prospectus and other statutory filing fees when filings are made and collectibility is assured. The amounts due and their collectibility are normally determined simultaneously, as most filings are paid for immediately.

Registration fees are paid to us in advance. We recognize only the portion of fees that relate to the registration period falling in the current fiscal year as revenue. We treat the balance as deferred revenue and recognize it as income in the next year.

We recognize administrative penalties, settlements, and recoveries of enforcement costs as revenue only when we receive payment since the collection of these amounts is uncertain (see note 11).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Estimates

Canadian generally accepted accounting principles require management to make estimates and assumptions for certain amounts disclosed in the financial statements.

In our financial statements, management has estimated the:

- portion of accounts and advances receivable that we will receive
- useful lives of capital assets
- value of the employee leave liability

Results may differ from these estimates.

e) Accounting policy changes

We adopted the *Comprehensive Income, Equity, Financial Instruments – recognition and measurement* and *Financial Instruments – disclosure and presentation* accounting standards, effective April 1, 2005. These new standards deal primarily with the valuation and disclosure of financial instruments. *Financial Instruments – recognition and measurement* requires that financial assets "held for trading," such as our short-term and designated investments, be measured at fair value. Related valuation gains and losses are recognized in net income in the periods in which they arise. Previously, we recognized unrealized losses immediately, but unrealized gains only on disposition. Adopting the new standards did not affect current or comparative year balances or results, because we recognized unrealized losses at both period ends.

4. FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalent assets, accounts and advances receivable, accounts payable and accrued liabilities, accrued salaries, and employee leave liability approximate their fair value because of their short maturity dates.

Short-term investments and investments held for designated purposes are subject to credit risk and interest rate risk. Credit risk is the risk that investment values will fluctuate because debtors cannot pay. We believe this risk is low because most of our investments are in government securities. Interest rate risk is the risk that investment values will fluctuate because of changes in market interest rates. We mitigate this risk by investing primarily in short-term instruments.

5. INVESTMENTS

Investments are carried at market value, and consist of:

		2006			2005		
		Units	Expected Return	Market Value	Units	Expected Return	Market Value
Short-term investments	Pooled Canadian Money Market Fund ST2	0.17	4.07%	$ 574,736	0.60	2.56%	$ 1,915,266
Investments held for designated purposes	Pooled Canadian Money Market Fund ST2	2.55	4.07%	$ 8,371,297	2.40	2.56%	$ 7,678,167
	Short-Term Bond Fund	3.28	4.12%	6,055,338	3.88	3.46%	6,984,798
			4.09%	$14,426,635		2.99%	$14,662,965

6. ACCOUNTS AND ADVANCES RECEIVABLE

Accounts and advances receivable consists of

	2006	2005
Canadian Securities Administrators	$ –	$ 80,522
Filing fees, net of allowance	11,104	72,177
Rent overpayment	148,783	–
Employee advances and other	60,968	45,055
	$ 220,855	$ 197,754

a) We pay our rent by preauthorized debit. The bank debited our account twice in March 2006. We received the overpayment in April.

7. CAPITAL ASSETS

Capital assets consist of

	2006			2005
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Leasehold improvements (a)	$ 3,980,923	$ 1,905,739	$ 2,075,184	$ 2,621,101
Office furniture (a)	1,856,647	955,597	901,050	1,143,639
Office equipment	644,046	428,831	215,215	267,691
Information technology	4,024,395	3,272,972	751,429	1,076,162
	$ 10,506,011	$ 6,563,139	$ 3,942,872	$ 5,108,593

a) During the year, we subleased some of our rented space at a loss. We wrote off, as an administration expense, the net book value of related leasehold and built-in furniture assets, totalling $240,889.

8. EMPLOYEE LEAVE LIABILITY

Employee leave liability is what we owe to our employees for their accumulated vacation time and other leave entitlements not yet taken.

9. SURPLUSES

The BC government transferred assets and liabilities with a net value of $1,415,018 to us on April 1, 1995. On March 31, 2004, we offset this amount against our deficit in general surplus. This eliminated our contributed surplus.

10. RESERVES

	FREE STABILIZATION APPROPRIATION (A)	EDUCATION (B)	TOTAL
Balance, March 31, 2004	$ 11,821,984	$ 3,919,438	$ 15,741,422
Additions	–	907,931	907,931
Investment income allocation	–	109,249	109,249
Disbursements	–	(2,095,637)	(2,095,637)
Balance, March 31, 2005	$ 11,821,984	$ 2,840,981	$ 14,662,965
Additions and appropriations	178,016	710,811	888,827
Investment income allocation	–	72,536	72,536
Disbursements	–	(1,197,693)	(1,197,693)
Balance, March 31, 2006	$ 12,000,000	$ 2,426,635	$ 14,426,635

10. RESERVES (continued)

a) Fee stabilization reserve

We appropriate amounts from our general surplus to the fee stabilization reserve so temporary revenue reductions will not immediately impair our ability to operate, or require immediate fee increases. This year, we appropriated $178,000 (fiscal 2005, $nil) of general surplus to the fee stabilization reserve.

b) Education reserve

We collect administrative penalties under section 162 of the *Securities Act*. We also negotiate settlement amounts that exceed our investigation costs. We appropriate both of these amounts from our general surplus to the education reserve. Education reserve funds may only be spent for the purpose of educating securities market participants and members of the public about investing, financial matters or the operation or regulation of securities markets. We mix education reserve funds with our other funds for investment purposes, so we allocate a portion of our investment income to the education reserve.

11. ENFORCEMENT REVENUE

Due to collection uncertainty, we do not recognize revenue from administrative penalties, settlements or enforcement cost recoveries until we receive payment. So, enforcement revenue includes the collection of penalties, settlements, and recoverable costs assessed in both the current and prior fiscal years.

During the current period, administrative penalties, settlements, and enforcement cost recoveries of $2,428,115 (fiscal 2005, $4,571,371) were not recognized as revenue because we did not receive payment. We vigorously pursue all uncollected penalties, settlements, and recoverable costs.

12. RELATED PARTY TRANSACTIONS

We are related through common ownership to all provincial government ministries, agencies and Crown corporations. We conducted all transactions with these entities as though we were unrelated parties.

13. POST-RETIREMENT EMPLOYEE BENEFITS

We, and our employees, contribute to the Public Service Pension Plan, a multi-employer plan established for the benefit of certain British Columbia public service employees. The plan is contributory, and its basic benefits are defined. The plan has about 47,000 active members and approximately 35,000 retired members. A board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of assets and administration of benefits.

An actuarial valuation of the plan is performed every three years to assess the financial position of the plan. The latest valuation, as at March 31, 2005, indicated a $707 million unfunded liability for basic pension benefits. In addition to basic benefits, the plan also provides supplementary benefits, including inflation indexing. These supplementary benefits are paid only to the extent that they have been funded, which is currently done on a "pay as you go" basis. The plan's unfunded liability would increase to $2,208 million if indexed benefits were funded in advance. Surpluses and deficits are not attributable to individual employers, but affect future contribution levels. We charged $1,084,770 to expenses for employer contributions in fiscal 2006 (fiscal 2005, $1,044,400).

14. COMMITMENTS AND CONTINGENT LIABILITIES

a) Office lease

We have leased office space to November 2011. Our annual rent, net of sublease recoveries, is approximately $850,000 until November 2006, and $925,000 after that date. We also pay our share of building operating and maintenance costs.

b) Disaster recovery services

We have contracted disaster recovery services that include the provision of off-site workgroup space, to August 31, 2007. Our remaining commitment for these services is approximately $116,000.

c) SEDAR operations agreement

CDS Inc. (CDS) operates the SEDAR electronic filing and payment system on behalf of the Canadian Securities Administrators (CSA) under an August 1, 2004 agreement with the Alberta Securities Commission, British Columbia Securities Commission, Ontario Securities Commission, and L'autorité des Marchés Financiers (the CSA Principal Administrators). Under the agreement:

- The CSA Principal Administrators must pay CDS if SEDAR system operating costs exceed revenues (a "shortfall"). Our portion of that guarantee is limited to 15.4% of any shortfall.
- CDS must pay SEDAR revenues in excess of system operating costs (a "surplus") to the CSA Principal Administrators. Any surplus is not divisible; the CSA Principal Administrators own it as a group.

CDS has paid $8.8 million to the OSC, in trust, representing surpluses generated by SEDAR during the November 1, 2002 to October 31, 2005 period. The CSA Principal Administrators have agreed that these funds will be used only for the benefit of national filing system users through system enhancements or usage fee adjustments.

Act	*Securities Act*, RSBC 1996, c. 418: the basic law of the province that establishes provisions for regulating securities markets.
CD	Continuous Disclosure: the legally required public disclosure by issuers of their financial statements and new releases.
CDS	CDS Inc. operates SEDAR, SEDI, and NRD on behalf of Canadian securities regulators. It is a subsidiary of The Canadian Depository for Securities, which handles securities clearing and settlement services in Canada.
CNQ	Canadian Trading and Quotation System Inc.
COSRA	Council of Securities Regulators of the Americas, of which the BCSC is a member. COSRA seeks to establish basic and common legal, regulatory and structural principles that promote efficient and liquid markets while ensuring appropriate levels of investor protection.
CSA	Canadian Securities Administrators: a council of the securities regulators of Canada's 13 provinces and territories.
CTO	Cease Trade Order: this is an order issued by a provincial or territorial securities commission or similar regulatory body against a company for failing to meet disclosure requirements, such as filing a quarterly or annual financial statement, or as a result of an enforcement action that involves an investigation of wrongdoing. The order prohibits trading in that company's securities.
IDA	Investment Dealers Association of Canada: the self-regulatory organization for firms that trade and advise in securities.
IMET	Integrated Market Enforcement Team: a partnership initiative between the federal Ministry of Justice, the Royal Canadian Mounted Police, the Vancouver Police and the BCSC to improve policing in the securities markets.
Insider Disclosure	The legally required public disclosure by insiders of their securities holdings and transactions.
IOSCO	International Organization of Securities Commissions, of which the BCSC is an associate member. IOSCO promotes cooperation, mutual assistance, information sharing, and the development of standards to improve the regulation of securities markets internationally.
Issuer	A company or other entity that has issued or is proposing to issue securities.
Joint Forum of Financial Market Regulators	The Joint Forum was founded in 1999 by the Canadian Council of Insurance Regulators (CCIR), the Canadian Securities Administrators (CSA), and the Canadian Association of Pension Supervisory Authorities (CAPSA). It also includes representation from the Canadian Insurance Services Regulatory Organizations (CISRO).
MD&A	Management Discussion and Analysis: the section of a quarterly or annual financial report in which the issuer's management comments on its financial results.
MFDA	Mutual Fund Dealers Association of Canada: the self-regulatory organization for firms that specialize in trading mutual funds.

GLOSSARY

NASAA	North American Securities Administrators Association, of which the BCSC is a member. NASAA consists of Canadian provincial, American state and Mexican federal securities regulators.
NASDAQ	NASDAQ Stock Market, Inc. is the world's largest electronic stock exchange. It is based in the United States.
National CTO Database	A real-time dissemination system of Cease Trade Order (CTO) information operated and maintained by RS. The database contains names of all Canadian companies whose shares have been cease traded, including shares traded on the TSX and TSX Venture Exchanges, as well as Canadian companies traded in other jurisdictions.
NRD	National Registration Database: the CSA's national web-based system that permits dealers and advisers to file registration forms electronically.
OTCBB	Over-the-Counter Bulletin Board: a quotation service that displays quotes, last-sale prices and volume information for equity securities trading over-the-counter in the United States. It is where market makers in an issuer's shares publish the prices at which they are prepared to buy or sell those securities.
Registrant	A firm or individual that is registered under the *Securities Act* to trade or advise in securities.
Reporting Issuer	A company that has offered securities to the public or listed its shares on an exchange. These issuers, often called "public companies," are subject to the Continuous Disclosure (CD) requirements of securities laws.
Rules	*Securities Rules*, BC Reg. 194/97: specific requirements under the Act, approved by government and issued by the BCSC.
RS	Market Regulation Services Inc.: the self-regulatory organization that oversees equity trading on exchanges and other markets.
SEDAR	System for Electronic Document Analysis and Retrieval: the CSA's national electronic filing system for disclosure by public companies and mutual funds.
SEDI	System for Electronic Disclosure by Insiders: the CSA's national web-based system that facilitates the filing and public dissemination of "insider reports".
SRO	Self-regulatory organization.
TSX	Toronto Stock Exchange. TSX is a subsidiary of TSX Group.
TSX Venture Exchange	The national junior equity exchange, a subsidiary of TSX.
TSX Group	A public company that owns the Toronto Stock Exchange and TSX Venture Exchange.

Resources for Investors

If you have any questions regarding your financial adviser, investment firm, or an investment type, or if you would like to make a complaint, please call our Contact Centre at 604.899.6854

Outside the greater Vancouver area:

Phone: 1.800.373.6393 (BC and Alberta only)

E-mail: inquiries@bcsc.bc.ca

The BCSC's website offers information to help investors make financial decisions and to promote understanding of the financial system. The information does not constitute financial or other professional advice. Always consult a professional adviser if you need financial advice about your personal circumstances.

Search our website databases at www.bcsc.bc.ca to:

- Check an adviser's credentials
- Track insider trading reports
- View our disciplined persons list
- See BCSC rules, policies, and decisions

For information about public companies and mutual funds, visit the SEDAR website at www.sedar.com

For information about insider trading activity and viewing insider reports online, visit the SEDI website at www.sedi.ca

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